

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



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4 December 2009

The Directors
Perception Digital Holdings Limited
Quam Capital Limited

Dear Sirs,

We set out below our report on the financial information of Perception Digital Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 (the "Financial Information"), and the six months ended 30 June 2008 (the "30 June 2008 Financial Information"), prepared on the basis set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 4 December 2009 (the "Prospectus") in connection with the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Financial Information comprises the combined statements of financial position of the Group as at 31 December 2007 and 2008 and 30 June 2009, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. The 30 June 2008 Financial Information comprises the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Group for the six months ended 30 June 2008, together with the notes thereto.

The Company was incorporated in the Cayman Islands on 11 September 2009 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, for the purpose of acting as a holding company of the companies now comprising the Group. The Company has not carried on any business since the date of its incorporation, save for the transactions relating to a corporate reorganization (the "Reorganization") as more fully explained in the section headed "Corporate Reorganization" in Appendix VI to the Prospectus. Pursuant to the Reorganization, the Company became the holding company of Perception Digital Technology (BVI) Ltd. ("Perception Digital (BVI)"), which is incorporated in the British Virgin Islands and the direct/indirect holding company of all the other subsidiaries of the Group during the Relevant Periods.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability (or, if incorporated outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Place and date of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
<i>Directly held:</i>				
Perception Digital Technology (BVI) ⁽ⁱ⁾	British Virgin Islands 25 February 2000	US\$13,197.70	100	Investment holding
<i>Indirectly held:</i>				
Perception Digital Limited ⁽ⁱⁱ⁾	Hong Kong 22 January 1999	HK\$67,690	100	Research, design and development, and provision of digital signal processing platform and embedded firmware, and provision of turnkey solutions
PD Trading (Hong Kong) Limited ⁽ⁱⁱ⁾	Hong Kong 11 September 2000	HK\$2	100	Trading of consumer electronic devices and components
IWC Digital Limited ⁽ⁱⁱ⁾	Hong Kong 10 March 2000	HK\$2	100	Inactive
幻音科技(深圳)有限公司* ⁽ⁱⁱⁱ⁾	People's Republic of China (the "PRC") 16 October 2001	HK\$8,000,000	100	Research and development, and provision of digital signal processing platform and embedded firmware and trading of consumer electronic devices

* This entity is a wholly foreign owned enterprise established in the PRC.

Notes:

- (i) For the purpose of this report, we have audited the consolidated financial statements of Perception Digital (BVI) for the years ended 31 December 2007 and 2008.
- (ii) We have audited the statutory financial statements of these companies for the years ended 31 December 2007 and 2008.
- (iii) The statutory financial statements of this company for the years ended 31 December 2007 and 2008 were audited by 深圳皇嘉會計師事務所 (Wongga Partners Certified Public Accountants (Shenzhen)) registered in the PRC.

As at the date of this report, no audited financial statements have been prepared for the Company since the date of its incorporation, as it was newly incorporated and has not been involved in any business transactions, other than the Reorganization. For the purpose of this report, we have, however, performed our own independent review of all relevant transactions of the Company since the date of its incorporation and carried out such procedures as we considered necessary for inclusion of the relevant information of the Company in this report.

All the companies now comprising the Group have adopted 31 December as their financial year end date.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of Perception Digital (BVI) for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

Respective responsibilities of directors and reporting accountants

The directors of the respective companies now comprising the Group are responsible for the preparation and the true and fair presentation of the respective audited financial statements and, where appropriate, management accounts. The directors of the Company are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information for the Relevant Periods in accordance with HKFRSs and the contents of the Prospectus in which this report is included. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. For the purpose of this report, it is our responsibility to express an independent opinion on the Financial Information based on our examination and to report our opinion to you.

The 30 June 2008 Financial Information has been prepared by the directors of the Company solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. For the purpose of this report, it is our responsibility to form an independent review conclusion, based on our review on the 30 June 2008 Financial Information and to report our conclusion to you.

Procedures performed in respect of the Financial Information

The Financial Information of the Group for the Relevant Periods has been prepared from the Underlying Financial Statements on the basis set out in note 2.1 of Section II below. For the purpose of this report, we have audited the Underlying Financial Statements for each of the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA, this involves examining the audited financial

statements or, where appropriate, management accounts of all the companies now comprising the Group for each of the Relevant Periods, and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements for the Relevant Periods in preparing the Financial Information included in this report.

Procedures performed in respect of the 30 June 2008 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2008 Financial Information, for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA's and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an opinion on the 30 June 2008 Financial Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and presented on the basis set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 December 2007 and 2008 and 30 June 2009 and of the combined results and cash flows of the Group for each of the Relevant Periods, in accordance with HKFRSs.

Review conclusion in respect of the 30 June 2008 Financial Information

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information, for the purpose of this report and presented on the basis set out in note 2.1 of Section II below, is not prepared, in all material respects, in accordance with HKFRSs.

I. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

	Notes	Year ended 31 December		Six months ended 30 June	
		2007 HK\$	2008 HK\$	2008 HK\$	2009 HK\$
REVENUE	6	616,738,169	555,780,401	165,659,483	147,737,431
Cost of sales		<u>(493,990,112)</u>	<u>(460,446,469)</u>	<u>(129,332,775)</u>	<u>(117,424,741)</u>
Gross profit		122,748,057	95,333,932	36,326,708	30,312,690
Other income	6	729,186	582,718	476,932	12,092
Research and development costs		(24,362,543)	(26,273,609)	(12,211,269)	(7,001,435)
Selling and distribution costs		(18,079,881)	(15,556,055)	(6,385,396)	(5,602,580)
General and administrative expenses		(26,078,472)	(31,978,348)	(16,186,299)	(12,216,713)
Other expenses, net		(3,870,515)	(4,603,711)	(1,080,903)	(431,220)
Finance costs	7	<u>(11,231,806)</u>	<u>(4,821,828)</u>	<u>(2,653,661)</u>	<u>(2,056,991)</u>
PROFIT/(LOSS) BEFORE TAX	8	39,854,026	12,683,099	(1,713,888)	3,015,843
Tax	11	<u>(9,067,718)</u>	<u>(4,520,419)</u>	<u>(274,351)</u>	<u>669,554</u>
PROFIT/(LOSS) FOR THE YEAR/PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>30,786,308</u>	<u>8,162,680</u>	<u>(1,988,239)</u>	<u>3,685,397</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12				
Basic (HK cents)		<u>5.1</u>	<u>1.4</u>	<u>(0.3)</u>	<u>0.6</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		Six months ended 30 June	
	2007 HK\$	2008 HK\$	2008 HK\$ (unaudited)	2009 HK\$
Profit/(loss) for the year/period attributable to equity holders of the Company	30,786,308	8,162,680	(1,988,239)	3,685,397
Other comprehensive income:				
Exchange differences on translation of foreign operations	<u>135,924</u>	<u>886,002</u>	<u>695,681</u>	<u>–</u>
Total comprehensive income/(loss) for the year/period attributable to equity holders of the Company	<u><u>30,922,232</u></u>	<u><u>9,048,682</u></u>	<u><u>(1,292,558)</u></u>	<u><u>3,685,397</u></u>

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		As at 30 June
		2007	2008	2009
		HK\$	HK\$	HK\$
NON-CURRENT ASSETS				
Property, plant and equipment	13	4,622,776	6,200,885	5,042,194
Deferred development costs	14	–	2,288,775	6,315,925
Available-for-sale investment	15	510,200	–	–
Rental deposits		382,599	571,154	–
Deferred tax assets	25	5,159,807	1,477,969	1,113,434
Total non-current assets		<u>10,675,382</u>	<u>10,538,783</u>	<u>12,471,553</u>
CURRENT ASSETS				
Inventories	16	3,352,844	9,168,561	7,965,520
Trade and bills receivables	17	241,400,629	195,167,739	106,370,915
Prepayments, deposits and other receivables	18	2,613,666	5,332,801	7,204,394
Due from a director	19	–	11,511,364	14,918,486
Pledged deposit	20	775,731	796,676	804,260
Cash and bank balances	20	26,215,458	9,356,415	9,249,109
Total current assets		<u>274,358,328</u>	<u>231,333,556</u>	<u>146,512,684</u>
CURRENT LIABILITIES				
Trade payables	21	171,180,657	153,016,365	84,297,510
Other payables and accruals	22	21,902,216	17,735,127	14,660,224
Due to a director	19	8,753,509	–	–
Loans from related parties	23	26,165,397	27,615,397	31,979,677
Interest-bearing bank borrowings	24	100,091,172	76,520,073	58,410,141
Tax payable		1,397,525	2,393,461	1,359,372
Total current liabilities		<u>329,490,476</u>	<u>277,280,423</u>	<u>190,706,924</u>
NET CURRENT LIABILITIES		<u>(55,132,148)</u>	<u>(45,946,867)</u>	<u>(44,194,240)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(44,456,766)</u>	<u>(35,408,084)</u>	<u>(31,722,687)</u>
NON-CURRENT LIABILITY				
Loan from a shareholder	23	525,620	525,620	525,620
Net liabilities		<u>(44,982,386)</u>	<u>(35,933,704)</u>	<u>(32,248,307)</u>
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	26	95,316	95,316	95,316
Reserves		(45,077,702)	(36,029,020)	(32,343,623)
Total equity		<u>(44,982,386)</u>	<u>(35,933,704)</u>	<u>(32,248,307)</u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Note	Issued capital HK\$	Share premium account* HK\$	Capital reserve* HK\$	Exchange fluctuation reserve* HK\$ (note)	Accumulated losses* HK\$	Total equity HK\$
At 1 January 2007		89,216	45,903,552	4,003,478	(253,262)	(125,653,702)	(75,910,718)
Profit for the year		-	-	-	-	30,786,308	30,786,308
Other comprehensive income		-	-	-	135,924	-	135,924
Total comprehensive income attributable to equity holders of the Company		-	-	-	135,924	30,786,308	30,922,232
Issue of shares	26	6,100	-	-	-	-	6,100
At 31 December 2007 and at 1 January 2008		95,316	45,903,552	4,003,478	(117,338)	(94,867,394)	(44,982,386)
Profit for the year		-	-	-	-	8,162,680	8,162,680
Other comprehensive income		-	-	-	886,002	-	886,002
Total comprehensive income attributable to equity holders of the Company		-	-	-	886,002	8,162,680	9,048,682
At 31 December 2008 and at 1 January 2009		95,316	45,903,552	4,003,478	768,664	(86,704,714)	(35,933,704)
Profit for the period		-	-	-	-	3,685,397	3,685,397
Total comprehensive income attributable to equity holders of the Company		-	-	-	-	3,685,397	3,685,397
At 30 June 2009		<u>95,316</u>	<u>45,903,552</u>	<u>4,003,478</u>	<u>768,664</u>	<u>(83,019,317)</u>	<u>(32,248,307)</u>
At 1 January 2008		95,316	45,903,552	4,003,478	(117,338)	(94,867,394)	(44,982,386)
Loss for the period (unaudited)		-	-	-	-	(1,988,239)	(1,988,239)
Other comprehensive income (unaudited)		-	-	-	695,681	-	695,681
Total comprehensive loss attributable to equity holders of the Company (unaudited)		-	-	-	695,681	(1,988,239)	(1,292,558)
At 30 June 2008 (unaudited)		<u>95,316</u>	<u>45,903,552</u>	<u>4,003,478</u>	<u>578,343</u>	<u>(96,855,633)</u>	<u>(46,274,944)</u>

* These reserve accounts comprise the combined negative reserves of HK\$45,077,702, HK\$36,029,020 and HK\$32,343,623 in the combined statements of financial position as at 31 December 2007, 31 December 2008 and 30 June 2009, respectively.

Note: The capital reserve represents the difference between the nominal value of the share capital of the subsidiaries acquired over the nominal value of the shares of Perception Digital (BVI) issued in exchange therefore pursuant to the group reorganization in 2000.

COMBINED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December		Six months ended 30 June	
		2007 HK\$	2008 HK\$	2008 HK\$ (unaudited)	2009 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax		39,854,026	12,683,099	(1,713,888)	3,015,843
Adjustments for:					
Finance costs	7	11,231,806	4,821,828	2,653,661	2,056,991
Interest income	6	(105,704)	(178,463)	(113,010)	(12,092)
Depreciation	8	2,827,174	2,822,235	1,288,829	1,408,652
Amortization	8	-	-	-	776,872
Impairment of items of property, plant and equipment	8	2,160,414	1,561,331	544,730	488,500
Loss on disposal of items of property, plant and equipment	8	-	88,752	25,973	3,246
Impairment of trade receivables	8	1,710,101	369,461	-	-
Write-back of provision for impairment of trade receivables	8	-	(266,033)	-	(60,526)
Impairment of available-for-sale investment	8	-	510,200	510,200	-
Impairment of an other financial asset	8	-	2,340,000	-	-
Write-down of inventories to net realizable value	8	11,196,771	7,133,992	4,673,849	443,090
Equity-settled share-based payment expense	8	6,100	-	-	-
		68,880,688	31,886,402	7,870,344	8,120,576
Increase in deferred development costs		-	(2,288,775)	(878,032)	(4,804,022)
Decrease/(increase) in rental deposits		(136,463)	(188,555)	272,807	-
Decrease/(increase) in inventories		5,493,813	(12,949,709)	(8,242,520)	759,951
Decrease/(increase) in trade and bills receivables		(211,265,580)	46,843,326	132,432,992	88,857,350
Increase in prepayments, deposits and other receivables		(296,815)	(2,659,895)	(5,032,544)	(1,300,439)
Increase/(decrease) in trade payables		143,828,634	(18,319,603)	(118,276,016)	(68,718,855)
Increase/(decrease) in other payables and accruals		7,250,807	(4,478,222)	(7,111,920)	(3,074,903)
Increase/(decrease) in an amount due to a director		8,753,509	(8,753,509)	(8,753,509)	-
Cash generated from/(used in) operations		22,508,593	29,091,460	(7,718,398)	19,839,658
Hong Kong tax paid		-	(8,750)	-	-
Net cash inflow/(outflow) from operating activities		<u>22,508,593</u>	<u>29,082,710</u>	<u>(7,718,398)</u>	<u>19,839,658</u>

	Notes	Year ended 31 December		Six months ended 30 June	
		2007 HK\$	2008 HK\$	2008 HK\$	2009 HK\$
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment		(5,759,214)	(6,102,691)	(2,429,802)	(815,405)
Proceeds from disposal of items of property, plant and equipment		–	328,138	1,658	73,698
Purchase of an other financial asset		–	(2,340,000)	(2,340,000)	–
Purchase of an available-for-sale investment		(510,200)	–	–	–
Increase in pledged time deposit		–	(20,945)	–	(7,584)
Interest received		105,704	178,463	113,010	12,092
Increase in an amount due from a director		–	(11,511,364)	–	(3,407,122)
Net cash outflow from investing activities		<u>(6,163,710)</u>	<u>(19,468,399)</u>	<u>(4,655,134)</u>	<u>(4,144,321)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in loans from related parties		11,000,000	8,000,000	8,000,000	6,000,000
Repayment of loans from a related party		–	(6,550,000)	(1,246,491)	(1,635,720)
New bank loans		385,965,479	285,362,982	124,830,383	139,281,566
Repayment of bank loans		(376,035,646)	(309,785,892)	(149,424,670)	(155,493,660)
Interest and bank charges paid		(9,947,048)	(4,821,828)	(2,653,661)	(2,056,991)
Net cash inflow/(outflow) from financing activities		<u>10,982,785</u>	<u>(27,794,738)</u>	<u>(20,494,439)</u>	<u>(13,904,805)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year/period		(4,964,701)	22,366,078	22,366,078	4,655,224
Effect of foreign exchange rate changes, net		3,111	469,573	680,314	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u>22,366,078</u>	<u>4,655,224</u>	<u>(9,821,579)</u>	<u>6,445,756</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	20	26,215,458	9,356,415	1,475,097	9,249,109
Bank overdrafts	24	(3,849,380)	(4,701,191)	(11,296,676)	(2,803,353)
		<u>22,366,078</u>	<u>4,655,224</u>	<u>(9,821,579)</u>	<u>6,445,756</u>

II. NOTES TO THE FINANCIAL INFORMATION**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, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Particulars of the companies now comprising the Group have been set out in the foregoing section.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

2.1 Pursuant to the Reorganization completed on 30 November 2009, the Company was incorporated and interspersed between Perception Digital BVI and the equity holders of Perception Digital BVI and became the holding company of Perception Digital BVI and its subsidiaries. As the Reorganization only involved inserting a new holding entity at the top of an existing group and has not resulted in any change of economic substances, the Financial Information for the Relevant Periods has been presented as a continuation of the existing group using the pooling of interest method. Accordingly, the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows are prepared as if the current group structure had been in existence throughout the Relevant Periods. The combined statements of financial position as at 31 December 2007, 31 December 2008 and 30 June 2009, present the assets and liabilities of the companies now comprising the Group, which had been incorporated/established as at the end of the respective reporting periods, as if the current group structure had been in existence at those dates.

2.2 As at 30 June 2009, the total liabilities of the Group exceeded its total assets by approximately HK\$32.2 million and total current liabilities exceeded its total current assets by approximately HK\$44.2 million. In respect of certain short term banking facilities granted to the Group in an aggregate amount of approximately HK\$105.8 million and HK\$102.8 million as at 31 December 2008 and 30 June 2009, respectively, of which approximately HK\$76.5 million and HK\$58.4 million were utilized as at 31 December 2008 and 30 June 2009, respectively, the Group was unable to provide audited financial statements for the year ended 31 December 2008 to the creditor bankers within the time period as specified in the corresponding banking facility letters. Taking into consideration the financial resources available to the Group, including its available credit facilities and internally generated funds, and the estimated net proceeds of the placing and public offering of new shares of the Company (the "Share Offer", as further detailed in the Prospectus), the directors of the Company have considered that the Group will have sufficient financial resources to finance its working capital requirements for the foreseeable future and, accordingly, have prepared the Underlying Financial Statements and the Financial Information, for the purpose of this report, on a going concern basis notwithstanding the net liabilities and the net current liabilities positions of the Group.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information has been prepared under the historical cost convention and is presented in Hong Kong dollars.

The HKICPA has issued a number of new and revised HKFRSs that are effective for the Group's financial year beginning on or after 1 January 2007. For the purpose of preparing the Financial Information, the Group has adopted all these new and revised HKFRSs consistently throughout the Relevant Periods, except for those new and revised HKFRSs that are not yet effective for any of the Relevant Periods.

A summary of the significant accounting policies adopted and consistently applied in the preparation of the Financial Information is set out below.

Basis of consolidation

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 unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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.

Impairment of non-financial assets other than goodwill

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 recognized 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 in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill 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/amortization) had no impairment loss been recognized 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.

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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

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 the end of each reporting period.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, 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.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalized 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 amortized using the straight-line basis over the commercial lives of the underlying products not exceeding two years, commencing from the date when the products are put into commercial production.

Investments and other financial assets

Financial assets of the Group in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of the reporting period.

All regular way purchases and sales of financial assets are recognized 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on these financial assets are recognized in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

When the fair value of an unlisted investment cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investment is stated at cost less any impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognized in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognized in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques.

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.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost 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 been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event after the impairment loss was recognized 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 derecognized where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. 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.

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to a director, loans from a shareholder and related parties, and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within "finance costs" in the income statement.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Derecognition of financial liabilities

A financial liability is derecognized 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 recognized in the income statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis. Net realizable 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 combined statements 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 combined statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized 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 recognized 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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement, or in equity if it relates to items that are recognized in the same or a different period 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.

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 recognized for all taxable temporary differences while deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized.

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 utilized. Conversely, previously unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

Deferred revenue and deferred cost of revenue

Deferred revenue represents contractual billings/amounts due from customers in excess of recognized revenue or for which the applicable revenue recognition criteria are not yet satisfied. Such amounts are deferred together with the corresponding costs (the "deferred cost of revenue") and are subsequently released to the income statement when the applicable revenue recognition criteria are satisfied.

Revenue recognition

Revenue is recognized 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 inventory with the same counterparty that are entered into in contemplation of one another are considered to be a single nonmonetary transaction. As such, revenue is not recognised for sale of inventory to the counterparty under such transactions;
- (b) from the rendering of services and handling income, 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 discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Share-based payment transactions

The Group may grant equity instruments to employees (including directors) or entities designated by/related to/for the benefit of the relevant employees for the purpose of providing incentives and/or rewards to those who contribute to the success of the Group. Employees (including directors) of the Group may directly or indirectly receive remuneration/reward in the form of share-based payment transactions, whereby the Group receives goods or services as consideration for equity instruments ("equity-settled transactions").

In situation where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) at the grant date.

In situations where the share-based payment transactions are with employees of the Group, the cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted, taking into account the terms and conditions upon which these equity instruments are granted. The fair value is determined by an external valuer using an appropriate valuation model, further details of which are given in note 26 under Section II of this report. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the issuer of the equity instruments ("market conditions"), if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognized 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 recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee 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 recognized for the award is recognized immediately. 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.

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 utilized by the respective employees in the following period. An accrual is made at the end of the 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 benefits 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.

Foreign currencies

The Company's functional currency is United States dollar. The Company has adopted Hong Kong dollar as its presentation currency, as the principal place of business of the Group's principal operating entities is located in 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 are initially recorded using the 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 reporting period. All differences 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.

As at the end of each reporting period, the assets and liabilities of the entities comprising the Group in 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 end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the reporting period. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of such a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

For the purpose of the combined statements of cash flows, the cash flows of those entities comprising the Group in 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 those entities which arise throughout the reporting period are translated into Hong Kong dollars at the weighted average exchange rates for the reporting period.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group or its parent;
- (c) the party is a close member of the family of any individual referred to in (a) or (b);
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in preparing the Financial Information.

HKFRS 1 (Revised)	<i>First-time Adoption of HKFRSs¹</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of HKFRSs – Additional Exemptions for First-time Adopters²</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions²</i>
HKFRS 3 (Revised)	<i>Business Combinations¹</i>
HKFRS 9	<i>Financial Instruments⁶</i>
HKAS 24 (Revised)	<i>Related Party Disclosures⁴</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements¹</i>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues⁵</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items¹</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners¹</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers³</i>

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2010

³ Effective for transfers of assets from customers received on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 February 2010

⁶ Effective for annual periods beginning on or after 1 January 2013

In October 2008, the HKICPA issued *Improvements to HKFRSs* with a view to removing inconsistencies and clarifying wording and which contains, inter alia, an amendment to HKFRS 5. The amendment to HKFRS 5 is effective for the annual periods on or after 1 July 2009.

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs 2009* in May 2009 which set out amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, Appendix to HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-16. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-16, which are effective for annual periods beginning on or after 1 July 2009, and no effective date for the amendment to the Appendix to HKAS 18 has been specified, other amendments are effective for annual periods beginning on or after 1 January 2010, although there are separate transitional provisions for certain amendments.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, save as not yet in a position to assess the possible impact of the adoption of the recently issued HKFRS 9 and HKAS 24 (Revised), the directors of the Company preliminary anticipate that the adoption of the new and revised HKFRSs is unlikely to have a significant impact on the Group's results of operations and financial position.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Financial Information 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 each 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 recognized in the Financial Information:

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 currencies of the entities now comprising the Group, judgement is required to determine and consider the currency that mainly influences the 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 currencies of the entities now comprising the Group are 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 capitalized and deferred in accordance with the accounting policy as set out in note 3 under Section II of this report. Initial capitalization of costs is based on management's judgement that the Group can demonstrate the technological and economical feasibility of completing the intangible asset so that it will be available for use or sale, usually when a product development project has reached a defined milestone according to an established project management model.

Income taxes

The Group has exposure to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. 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.

Adoption of the going concern basis

In assessing whether the going concern assumption is appropriate in the presentation of the Financial Information, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to the sufficiency of the Group's financial resources to satisfy its working capital and other financing requirements for the foreseeable future, including, inter alia, the ongoing support of the Group's creditor bankers, current and expected profitability, debt repayment schedules, potential sources of new funds, and other measures/arrangements before they can satisfy themselves that the going concern basis is appropriate.

The failure of the Group to continue as a going concern could result in certain assets realizing significantly less than the amounts stated in the combined statement of financial position, non-current assets being reclassified as current assets, and might lead to additional liabilities being incurred by the Group.

Share-based payment transactions

A subsidiary of the Company has granted certain equity instruments to entities designated by/related to/for the benefit of certain employees of the Group in connection with certain equity-settled transactions. The Group measures the cost of these equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for the equity instruments granted, depending on the terms and conditions of the grant and other specific facts and circumstances. Management is also required to use judgement in determining the most appropriate inputs to the valuation model. Further details are contained in note 26 under Section II of this report.

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 period, are discussed 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 trade receivables arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the ageing of its trade 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.

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 lives are tested for impairment when there are indicators that the carrying amounts may not be recoverable. 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.

Impairment of unlisted available-for-sale investment and other financial asset

Certain unlisted available-for-sale investment and other financial asset of the Group are stated at cost less any impairment losses, when their fair value cannot be reliably measured. Management exercises judgement based on the observable data relating to the possible events that may have caused the decline in value to determine whether the decline in value is an impairment that should be recognized in the income statement.

Net realizable 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 realizable 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 recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilized. 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 recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 25 under Section II of this report.

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development costs as set out in note 3 under Section II of this report. Determining the amounts to be capitalized 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 property, plant and equipment's estimated economic useful lives. 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

The Company's management determines the estimated useful lives of its deferred development costs for calculation of amortization 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 in which the deferred development costs relate to. Management reviews the estimated useful lives on an annual basis and future amortization charges are adjusted where management believes the useful lives differ from previous estimates.

Fair value of financial instruments

Where fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. SEGMENT INFORMATION

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

Geographical information

The following tables present revenue from external customers and certain non-current assets information by geographical locations for each of the Relevant Periods and the six months ended 30 June 2008.

	Europe HK\$	United States of America HK\$	Mainland China HK\$	Hong Kong HK\$	Others HK\$	Total HK\$
Year ended 31 December 2007						
Revenue from external customers	<u>241,287,079</u>	<u>230,072,337</u>	<u>114,363,016</u>	<u>23,752,899</u>	<u>7,262,838</u>	<u>616,738,169</u>
At 31 December 2007						
Non-current assets	<u>-</u>	<u>-</u>	<u>2,790,183</u>	<u>2,215,192</u>	<u>-</u>	<u>5,005,375</u>
Year ended 31 December 2008						
Revenue from external customers	<u>62,096,096</u>	<u>21,806,323</u>	<u>437,417,276</u>	<u>28,846,030</u>	<u>5,614,676</u>	<u>555,780,401</u>
At 31 December 2008						
Non-current assets	<u>-</u>	<u>-</u>	<u>3,730,346</u>	<u>5,330,468</u>	<u>-</u>	<u>9,060,814</u>
Six months ended 30 June 2008						
Revenue from external customers (unaudited)	<u>59,662,770</u>	<u>6,700,654</u>	<u>83,729,342</u>	<u>12,788,311</u>	<u>2,778,406</u>	<u>165,659,483</u>
Six months ended 30 June 2009						
Revenue from external customers	<u>54,876,996</u>	<u>16,090,882</u>	<u>20,632,427</u>	<u>54,671,134</u>	<u>1,465,992</u>	<u>147,737,431</u>
At 30 June 2009						
Non-current assets	<u>-</u>	<u>-</u>	<u>3,676,985</u>	<u>7,681,134</u>	<u>-</u>	<u>11,358,119</u>

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

Reconciliation:

	As at 31 December		As at 30
	2007	2008	June
	HK\$	HK\$	2009
			HK\$
Total non-current assets for the purpose of geographical information			
Unallocated assets:			
Available-for-sale investment	510,200	-	-
Deferred tax assets	<u>5,159,807</u>	<u>1,477,969</u>	<u>1,113,434</u>
The Group's total non-current assets	<u>10,675,382</u>	<u>10,538,783</u>	<u>12,471,553</u>

Information about major customers

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

	Year ended 31 December		Six months ended 30 June	
	2007	2008	2008	2009
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Customer A	227,175,863	458,190,724	98,622,429	109,214,339
Customer B	108,254,894	–	–	–
Customer C	67,494,043	–	–	–
Customer D	–	58,804,519	50,426,176	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

6. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income for each of the Relevant Periods and the six months ended 30 June 2008 is as follows:

	Year ended 31 December		Six months ended 30 June	
	2007	2008	2008	2009
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Revenue				
Sale of goods	573,311,209	505,477,414	144,702,747	131,279,066
Rendering of services	11,096,038	12,589,614	5,824,232	6,504,425
Royalty income	32,330,922	37,713,373	15,132,504	9,953,940
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	616,738,169	555,780,401	165,659,483	147,737,431
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other income				
Bank interest income	105,704	178,463	113,010	12,092
Handling income	623,482	404,255	363,922	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	729,186	582,718	476,932	12,092
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. FINANCE COSTS

	Year ended 31 December		Six months ended 30 June	
	2007	2008	2008	2009
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Interest on bank loans and overdrafts wholly repayable within five years	8,939,686	4,045,560	2,245,872	1,729,179
Interest on loans from related parties and a shareholder (note 23)	1,284,758	–	–	–
Bank charges	1,007,362	776,268	407,789	327,812
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	11,231,806	4,821,828	2,653,661	2,056,991
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

8. PROFIT/(LOSS) BEFORE TAX

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

	Year ended 31 December		Six months ended 30 June	
	2007 HK\$	2008 HK\$	2008 HK\$	2009 HK\$
			(unaudited)	
Cost of inventories sold and services rendered	493,990,112	460,446,469	129,332,775	117,424,741
Depreciation	2,827,174	2,822,235	1,288,829	1,408,652
Research and development costs:				
Deferred expenditure amortized [^]	–	–	–	776,872
Current year expenditure	24,362,543	26,273,609	12,211,269	7,001,435
	<u>24,362,543</u>	<u>26,273,609</u>	<u>12,211,269</u>	<u>7,778,307</u>
Minimum lease payments under operating leases:				
Land and buildings	2,510,791	3,437,456	1,656,446	1,371,783
Office equipment	84,331	90,848	44,497	42,635
	<u>2,595,122</u>	<u>3,528,304</u>	<u>1,700,943</u>	<u>1,414,418</u>
Auditors' remuneration	948,000	985,000	492,500	492,500
Employee benefit expense (including directors' remuneration (note 9)):				
Wages, salaries, allowances and bonuses	37,371,077	45,570,259	21,884,263	20,616,824
Equity-settled share-based payment expense	6,100	–	–	–
Pension scheme contributions (defined contribution scheme)	715,605	768,796	411,964	421,912
	<u>38,092,782</u>	<u>46,339,055</u>	<u>22,296,227</u>	<u>21,038,736</u>
Foreign exchange differences, net	607,176	1,318,067	503,835	86,731
Impairment of items of property, plant and equipment*	2,160,414	1,561,331	544,730	488,500
Loss on disposal of items of property, plant and equipment, net	–	88,752	25,973	3,246
Impairment of trade receivables	1,710,101	369,461	–	–
Write-back of provision for impairment of trade receivables	–	(266,033)	–	(60,526)
Impairment of an available-for-sale investment*	–	510,200	510,200	–
Impairment of an other financial asset [#]	–	2,340,000	–	–
Write-down of inventories to net realizable value [^]	11,196,771	7,133,992	4,673,849	443,090
	<u>11,196,771</u>	<u>7,133,992</u>	<u>4,673,849</u>	<u>443,090</u>

- * The impairment of items of property, plant and equipment and the impairment of an available-for-sale investment are included in "Other expenses, net" on the face of the combined income statement.
- ^ The amortization of deferred development costs and the write-down of inventories to net realizable value are included in "Cost of sales" on the face of the combined income statement.
- # During the year ended 31 December 2008, the Group recognized an impairment of an other financial asset of HK\$2,340,000 that relates to a counterparty that is in default/financial difficulties. The Group does not hold any collateral or other credit enhancement over such asset.

9. DIRECTORS' REMUNERATION

Details of the remuneration paid and payable to the directors of the Company for the Relevant Periods and the six months ended 30 June 2008 are as follows:

	Year ended 31 December		Six months ended 30 June	
	2007	2008	2008	2009
	HK\$	HK\$	HK\$	HK\$
Fee	120,000	165,000	90,000	–
Other emoluments:				
Salaries, allowances, bonuses and benefits in kind	1,112,011	1,852,078	811,020	749,700
Equity-settled share-based payment expense	6,100	–	–	–
Pension scheme contributions (defined contribution scheme)	17,000	24,000	12,000	12,000
	<u>1,255,111</u>	<u>2,041,078</u>	<u>913,020</u>	<u>761,700</u>

During the year ended 31 December 2007, 2,933 and 4,888 ordinary shares of Perception Digital (BVI) were issued and allotted to certain entities designated by/related to/for the benefit of Dr. Jack Lau and Mr. Chui Shing Yip, respectively, who are employees of the Group and also the current directors of the Company, for the purpose of providing incentives/rewards for their contributions to the success of the Group (the "Equity-settled Share-based Payment Transactions"). Further details of which are set out in note 26 under Section II of this report.

The remuneration of each of the directors of the Company for the Relevant Periods and the six months ended 30 June 2008 is set out below:

	Fee HK\$	Salaries allowances, bonuses and benefits in kind HK\$	Equity- settled share-based payment expense HK\$	Pension scheme contributions HK\$	Total remuneration HK\$
Year ended 31 December 2007					
Executive directors:					
Dr. Jack Lau	-	620,000	2,288	12,000	634,288
Dr. Tsui Chi Ying	120,000	30,000	-	-	150,000
Dr. Cheng Shu Kwan, Roger	-	-	-	-	-
Mr. Lam Sze Chung, Paul	-	-	-	-	-
Mr. Chui Shing Yip	-	462,011	3,812	5,000	470,823
	<u>120,000</u>	<u>1,112,011</u>	<u>6,100</u>	<u>17,000</u>	<u>1,255,111</u>
Year ended 31 December 2008					
Executive directors:					
Dr. Jack Lau	-	840,258	-	12,000	852,258
Dr. Tsui Chi Ying	165,000	-	-	-	165,000
Dr. Cheng Shu Kwan, Roger	-	-	-	-	-
Mr. Lam Sze Chung, Paul	-	-	-	-	-
Mr. Chui Shing Yip	-	1,011,820	-	12,000	1,023,820
	<u>165,000</u>	<u>1,852,078</u>	<u>-</u>	<u>24,000</u>	<u>2,041,078</u>
Six months ended 30 June 2008 (unaudited)					
Executive directors:					
Dr. Jack Lau	-	300,000	-	6,000	306,000
Dr. Tsui Chi Ying	90,000	-	-	-	90,000
Dr. Cheng Shu Kwan, Roger	-	-	-	-	-
Mr. Lam Sze Chung, Paul	-	-	-	-	-
Mr. Chui Shing Yip	-	511,020	-	6,000	517,020
	<u>90,000</u>	<u>811,020</u>	<u>-</u>	<u>12,000</u>	<u>913,020</u>
Six months ended 30 June 2009					
Executive directors:					
Dr. Jack Lau	-	300,000	-	6,000	306,000
Dr. Tsui Chi Ying	-	-	-	-	-
Dr. Cheng Shu Kwan, Roger	-	-	-	-	-
Mr. Lam Sze Chung, Paul	-	-	-	-	-
Mr. Chui Shing Yip	-	449,700	-	6,000	455,700
	<u>-</u>	<u>749,700</u>	<u>-</u>	<u>12,000</u>	<u>761,700</u>

No emoluments were paid to the non-executive directors and independent non-executive directors of the Company during the Relevant Periods and the six months ended 30 June 2008.

No remuneration was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods and the six months ended 30 June 2008.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2008.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included one director for each of the Relevant Periods and the six months ended 30 June 2008. Information relating to directors' remuneration has been disclosed in note 9 under Section II of this report. Details of the remuneration of the remaining four non-director, highest paid employees for the Relevant Periods and the six months ended 30 June 2008 are as follows:

	Year ended 31 December		Six months ended 30 June	
	2007	2008	2008	2009
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Salaries, allowances and bonuses	5,355,050	5,422,464	2,759,800	2,091,467
Pension scheme contributions (defined contribution scheme)	31,000	36,000	18,000	17,000
	<u>5,386,050</u>	<u>5,458,464</u>	<u>2,777,800</u>	<u>2,108,467</u>

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

	Year ended 31 December		Six months ended 30 June	
	2007	2008	2008	2009
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Nil to HK\$1,000,000	2	1	4	4
HK\$1,000,001 to HK\$1,500,000	–	1	–	–
HK\$1,500,001 to HK\$2,000,000	1	2	–	–
HK\$2,000,001 to HK\$2,500,000	1	–	–	–
	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

No remuneration was paid or payable by the Group to the highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods and the six months ended 30 June 2008.

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% for the year ended 31 December 2007 and 16.5% for the year ended 31 December 2008 and the six months ended 30 June 2008 and 2009. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December		Six months ended 30 June	
	2007 HK\$	2008 HK\$	2008 HK\$	2009 HK\$
			(unaudited)	
Current:				
Hong Kong				
– Underprovision in prior periods	–	284,419	–	–
Elsewhere				
– Charge for the year/period	1,397,525	554,162	–	518,746
– Overprovision in prior periods	–	–	–	(1,552,835)
	1,397,525	838,581	–	(1,034,089)
Deferred (<i>note 25</i>)	7,670,193	3,681,838	274,351	364,535
Total tax charge/(credit) for the year/period	9,067,718	4,520,419	274,351	(669,554)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the Hong Kong statutory 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:

	Year ended 31 December		Six months ended 30 June	
	2007 HK\$	2008 HK\$	2008 HK\$	2009 HK\$
			(unaudited)	
Profit/(loss) before tax	39,854,026	12,683,099	(1,713,888)	3,015,843
Hong Kong statutory tax rate	17.5%	16.5%	16.5%	16.5%
Tax expense/(credit) at the Hong Kong statutory tax rate	6,974,455	2,092,711	(282,792)	497,614
Effect on opening deferred tax of decrease in rate	–	287,413	287,413	–
Effect of difference in tax rate/tax rule for specific jurisdiction or enacted by local tax authority	1,374,697	356,410	59,321	67,891
Adjustment in respect of current tax of prior periods	–	284,419	–	(1,552,835)
Adjustment in respect of deferred tax of prior periods	724,005	771,280	–	–
Income not subject to tax	(36,007)	(85,628)	(83,063)	(71,249)
Expenses not deductible for tax	745,830	731,766	185,676	368,927
Tax losses utilized from prior periods	(715,262)	–	–	–
Others	–	82,048	107,796	20,098
Tax charge/(credit) at the Group's effective tax rate	9,067,718	4,520,419	274,351	(669,554)

The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008 and the six months ended 30 June 2008 and 2009.

The Group's subsidiary established and operating in the Shenzhen Special Economic Zone (the "SEZ") of the PRC is subject to PRC corporate income tax ("CIT") rate of 15% for the year ended 31 December 2007. The Group's subsidiary established and operating in the SEZ 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.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for each of the Relevant Periods and the six months ended 30 June 2008 attributable to the ordinary equity holders of the Company, and on the assumption that 600,000,000 shares had been in issue throughout the Relevant Periods and the six months ended 30 June 2008, comprising 131,977 shares in issue at the date of the Prospectus, and 599,868,023 shares to be issued pursuant to the capitalization issue and share offer as more fully explained in the section headed "Corporate Reorganization" in Appendix VI to the Prospectus.

	Year ended 31 December		Six months ended 30 June	
	2007	2008	2008	2009
	HK\$	HK\$	HK\$	HK\$
Profit/(loss) attributable to equity holders of the Company used in the basic earnings/(loss) per share calculation	30,786,308	8,162,680	(1,988,239)	3,685,397
Weighted average number of shares in issue used in the basic earnings/(loss) per share calculation (HK cents)	5.1	1.4	(0.3)	0.6

There were no potential dilutive ordinary shares in existence during the Relevant Periods and the six months ended 30 June 2008 and therefore, no diluted earnings per share amounts have been presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and office equipment HK\$	Machinery and equipment HK\$	Leasehold improvements HK\$	Toolings HK\$	Motor vehicles HK\$	Total HK\$
31 December 2007						
At 1 January 2007:						
Cost	4,616,911	470,998	455,154	9,007,675	159,406	14,710,144
Accumulated depreciation and impairment	(2,871,318)	(269,419)	(195,722)	(7,467,258)	(92,597)	(10,896,314)
Net carrying amount	<u>1,745,593</u>	<u>201,579</u>	<u>259,432</u>	<u>1,540,417</u>	<u>66,809</u>	<u>3,813,830</u>
At 1 January 2007, net of accumulated depreciation and impairment	1,745,593	201,579	259,432	1,540,417	66,809	3,813,830
Additions	2,611,283	347,118	130,310	2,670,503	-	5,759,214
Depreciation provided during the year	(1,027,973)	(106,309)	(126,443)	(1,525,378)	(41,071)	(2,827,174)
Impairment	-	-	-	(2,160,414)	-	(2,160,414)
Exchange realignment	34,632	-	1,046	-	1,642	37,320
At 31 December 2007, net of accumulated depreciation and impairment	<u>3,363,535</u>	<u>442,388</u>	<u>264,345</u>	<u>525,128</u>	<u>27,380</u>	<u>4,622,776</u>
At 31 December 2007:						
Cost	7,297,849	818,116	585,893	11,678,178	164,284	20,544,320
Accumulated depreciation and impairment	(3,934,314)	(375,728)	(321,548)	(11,153,050)	(136,904)	(15,921,544)
Net carrying amount	<u>3,363,535</u>	<u>442,388</u>	<u>264,345</u>	<u>525,128</u>	<u>27,380</u>	<u>4,622,776</u>
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost	7,297,849	818,116	585,893	11,678,178	164,284	20,544,320
Accumulated depreciation and impairment	(3,934,314)	(375,728)	(321,548)	(11,153,050)	(136,904)	(15,921,544)
Net carrying amount	<u>3,363,535</u>	<u>442,388</u>	<u>264,345</u>	<u>525,128</u>	<u>27,380</u>	<u>4,622,776</u>
At 1 January 2008, net of accumulated depreciation and impairment	3,363,535	442,388	264,345	525,128	27,380	4,622,776
Additions	1,741,906	824,988	100,699	2,972,824	462,274	6,102,691
Disposals	(2,769)	-	-	-	(414,121)	(416,890)
Depreciation provided during the year	(1,597,522)	(281,669)	(149,539)	(715,539)	(77,966)	(2,822,235)
Impairment	-	-	-	(1,561,331)	-	(1,561,331)
Exchange realignment	252,016	-	21,425	-	2,433	275,874
At 31 December 2008, net of accumulated depreciation and impairment	<u>3,757,166</u>	<u>985,707</u>	<u>236,930</u>	<u>1,221,082</u>	<u>-</u>	<u>6,200,885</u>
At 31 December 2008:						
Cost	9,509,020	1,643,104	733,515	14,464,102	182,542	26,532,283
Accumulated depreciation and impairment	(5,751,854)	(657,397)	(496,585)	(13,243,020)	(182,542)	(20,331,398)
Net carrying amount	<u>3,757,166</u>	<u>985,707</u>	<u>236,930</u>	<u>1,221,082</u>	<u>-</u>	<u>6,200,885</u>

	Furniture, fixtures and office equipment HK\$	Machinery and equipment HK\$	Leasehold improvements HK\$	Toolings HK\$	Motor vehicles HK\$	Total HK\$
30 June 2009						
At 31 December 2008 and at 1 January 2009:						
Cost	9,509,020	1,643,104	733,515	14,464,102	182,542	26,532,283
Accumulated depreciation and impairment	(5,751,854)	(657,397)	(496,585)	(13,243,020)	(182,542)	(20,331,398)
Net carrying amount	<u>3,757,166</u>	<u>985,707</u>	<u>236,930</u>	<u>1,221,082</u>	<u>-</u>	<u>6,200,885</u>
At 1 January 2009, net of accumulated depreciation and impairment						
At 1 January 2009, net of accumulated depreciation and impairment	3,757,166	985,707	236,930	1,221,082	-	6,200,885
Additions	100,617	-	-	571,844	142,944	815,405
Disposals	(35,121)	-	(41,823)	-	-	(76,944)
Depreciation provided during the period	(812,791)	(174,630)	(60,849)	(357,404)	(2,978)	(1,408,652)
Impairment	-	-	-	(488,500)	-	(488,500)
At 30 June 2009, net of accumulated depreciation and impairment	<u>3,009,871</u>	<u>811,077</u>	<u>134,258</u>	<u>947,022</u>	<u>139,966</u>	<u>5,042,194</u>
At 30 June 2009:						
Cost	9,561,723	1,643,104	674,701	15,035,946	142,944	27,058,418
Accumulated depreciation and impairment	(6,551,852)	(832,027)	(540,443)	(14,088,924)	(2,978)	(22,016,224)
Net carrying amount	<u>3,009,871</u>	<u>811,077</u>	<u>134,258</u>	<u>947,022</u>	<u>139,966</u>	<u>5,042,194</u>

During the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009, 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\$2,160,414, HK\$1,561,331 and HK\$488,500, respectively, should be made for items that have 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.

14. DEFERRED DEVELOPMENT COSTS

	2007 HK\$	2008 HK\$	2009 HK\$
Cost at 1 January, net of accumulated amortization and impairment	–	–	2,288,775
Additions – internal development	–	2,288,775	4,804,022
Amortization provided during the year/period	–	–	(776,872)
	<u>–</u>	<u>–</u>	<u>–</u>
At end of year/period	<u>–</u>	<u>2,288,775</u>	<u>6,315,925</u>
At end of year/period:			
Cost	11,077,360	13,366,135	18,170,157
Accumulated amortization and impairment	<u>(11,077,360)</u>	<u>(11,077,360)</u>	<u>(11,854,232)</u>
Net carrying amount	<u>–</u>	<u>2,288,775</u>	<u>6,315,925</u>

The cost and the accumulated amortization and impairment of the Group's deferred development costs as at 1 January 2007 both amounted to HK\$11,077,360.

15. AVAILABLE-FOR-SALE INVESTMENT

	As at 31 December		As at 30 June
	2007 HK\$	2008 HK\$	2009 HK\$
Unlisted equity investment, at cost	510,200	510,200	–
Impairment	–	(510,200)	–
	<u>510,200</u>	<u>–</u>	<u>–</u>

As at the end of the respective reporting periods, the Group's unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates is so significant and/or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

During the year ended 31 December 2008, the Group recognized an impairment loss of HK\$510,200, reflecting the write-down in the carrying value of the above unlisted equity investment in a PRC company that has been in financial difficulties.

16. INVENTORIES

	As at 31 December		As at 30 June
	2007 HK\$	2008 HK\$	2009 HK\$
Raw materials and components	3,352,844	9,070,858	7,965,520
Finished goods	–	97,703	–
	<u>3,352,844</u>	<u>9,168,561</u>	<u>7,965,520</u>

17. TRADE AND BILLS RECEIVABLES

	As at 31 December		As at
	2007	2008	30 June
	HK\$	HK\$	2009
Trade and bills receivables	243,607,039	197,121,422	108,096,094
Impairment	(2,206,410)	(1,953,683)	(1,725,179)
	<u>241,400,629</u>	<u>195,167,739</u>	<u>106,370,915</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade and bills receivables are non-interest-bearing.

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

	2007	2008	2009
	HK\$	HK\$	HK\$
At 1 January	671,072	2,206,410	1,953,683
Impairment losses recognized (note 8)	1,710,101	369,461	–
Amount written off as uncollectible	(174,763)	(356,155)	(167,978)
Impairment losses reversed	–	(266,033)	(60,526)
At end of year/period	<u>2,206,410</u>	<u>1,953,683</u>	<u>1,725,179</u>

Included in the above provision for impairment of trade and bills receivables as at 31 December 2007, 31 December 2008 and 30 June 2009 is a provision for individually impaired trade receivables of HK\$2,206,410, HK\$1,953,683 and HK\$1,725,179 with carrying amounts of HK\$4,833,077, HK\$3,984,986 and HK\$2,702,818, respectively. The individually impaired trade receivables relate to customers that were in financial difficulties and none/only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	As at 31 December		As at
	2007	2008	30 June
	HK\$	HK\$	2009
Neither past due nor impaired	162,250,296	147,987,737	94,770,318
Less than 31 days past due	59,071,673	36,146,467	3,843,196
31 to 60 days past due	12,448,263	6,285,770	321,902
61 to 90 days past due	4,071,624	1,176,739	2,316,820
Over 90 days past due	932,106	1,539,723	4,141,040
	<u>238,773,962</u>	<u>193,136,436</u>	<u>105,393,276</u>

Trade and bills receivables that were neither past due nor impaired relate to a sizeable number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a sizeable 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 and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade and bills receivables are amounts of HK\$37,373,152, HK\$11,340,601 and HK\$22,348,800 as at 31 December 2007, 31 December 2008 and 30 June 2009, respectively, which represent discounted bills with recourse (note 24). As at 31 December 2007, trade receivables of HK\$15,214,144 were pledged to secure certain banking facilities granted to the Group.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		As at
	2007	2008	30 June
	HK\$	HK\$	2009
			HK\$
Prepayments	1,274,823	1,537,115	1,554,329
Deposits and other receivables	1,338,843	2,215,274	4,874,896
Deferred cost of revenue	–	1,580,412	775,169
	<u>2,613,666</u>	<u>5,332,801</u>	<u>7,204,394</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default.

19. DUE FROM/(TO) A DIRECTOR

Particulars of an amount due from a director, Dr. Jack Lau, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	At end of	Maximum	At
	year/ period	amount	beginning
	HK\$	outstanding	of year/
		during the	period
		year	HK\$
		HK\$	
Year ended 31 December 2007	<u>–</u>	<u>–</u>	<u>–</u>
Year ended 31 December 2008	<u>11,511,364</u>	<u>12,000,000</u>	<u>–</u>
Six months ended 30 June 2009	<u>14,918,486</u>	<u>15,000,000</u>	<u>11,511,364</u>

The balances with a director, Dr. Jack Lau, are unsecured, interest-free and have no fixed terms of repayment.

The amount due from Dr. Jack Lau was fully settled subsequent to 30 June 2009 and prior to the date of this report.

20. CASH AND BANK BALANCES AND PLEDGED DEPOSIT

	As at 31 December		As at
	2007	2008	30 June
	HK\$	HK\$	2009 HK\$
Cash at banks and on hand	26,215,458	9,356,415	9,249,109
Pledged deposit	<u>775,731</u>	<u>796,676</u>	<u>804,260</u>
	26,991,189	10,153,091	10,053,369
<i>Less: Pledged deposit for a licensing arrangement</i>	<u>(775,731)</u>	<u>(796,676)</u>	<u>(804,260)</u>
Cash and bank balances	<u>26,215,458</u>	<u>9,356,415</u>	<u>9,249,109</u>

At 31 December 2007, 31 December 2008 and 30 June 2009, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$4,225,330, HK\$1,731,064 and HK\$424,805, 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 authorized to conduct foreign exchange business.

Cash at banks and pledged deposit earn interest at floating rates based on daily bank deposit rates. The bank balances and the pledged deposit 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 respective reporting periods, based on the invoice date, is as follows:

	As at 31 December		As at
	2007	2008	30 June
	HK\$	HK\$	2009 HK\$
Within 30 days	30,458,167	17,606,894	70,681,146
31 to 60 days	77,542,011	129,496,921	3,852,253
Over 60 days	<u>63,180,479</u>	<u>5,912,550</u>	<u>9,764,111</u>
	<u>171,180,657</u>	<u>153,016,365</u>	<u>84,297,510</u>

22. OTHER PAYABLES AND ACCRUALS

	As at 31 December		As at
	2007	2008	30 June
	HK\$	HK\$	2009
Other payables	11,219,059	8,135,693	5,170,886
Accrued interest on loans from related parties and a shareholder	3,384,456	3,384,456	3,384,456
Other accruals	7,298,701	4,154,639	5,094,401
Deferred revenue	–	2,060,339	1,010,481
	<u>21,902,216</u>	<u>17,735,127</u>	<u>14,660,224</u>

23. LOANS FROM RELATED PARTIES AND A SHAREHOLDER

	As at 31 December		As at
	2007	2008	30 June
	HK\$	HK\$	2009
Current:			
Related parties			
– Jack Lau Limited	15,301,397	16,751,397	21,115,677
– Mr. Heung, Lap Chi Eugene	10,864,000	10,864,000	10,864,000
	<u>26,165,397</u>	<u>27,615,397</u>	<u>31,979,677</u>
Non-current:			
Shareholder – Mr. Philip Wu	525,620	525,620	525,620

The loans from related parties are unsecured, bore interest at the Hong Kong dollar prime lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited during the year ended 31 December 2007 and became interest-free starting from 1 January 2008, and have no fixed terms of repayment. The beneficial shareholder of Jack Lau Limited, Ms. Loh, Jiah Yee Katherine who is the spouse of Dr. Jack Lau, indirectly through one or more intermediaries, has a beneficial interest in the Group. Mr. Heung, Lap Chi Eugene is a close family member of a beneficial shareholder of the Company, Ms. Leung, Yee Li Lana.

The loan from a shareholder is unsecured, bore interest at the Hong Kong dollar prime lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited during the year ended 31 December 2007 and became interest-free starting from 1 January 2008, and is originally not repayable within twelve months from the end of the respective reporting periods.

The effective interest rate for the loans from related parties and a shareholder for the year ended 31 December 2007 was 7.4%. The loans from related parties and a shareholder were non-interest-bearing for the year ended 31 December 2008 and the six months ended 30 June 2009.

The loans from related parties and a shareholder, and the related accrued interests were fully settled subsequent to 30 June 2009 and prior to the date of this report.

24. INTEREST-BEARING BANK BORROWINGS

	As at 31 December						As at 30 June		
	2007			2008			2009		
	Effective interest rate	Maturity	HK\$	Effective interest rate	Maturity	HK\$	Effective interest rate	Maturity	HK\$
Bank overdrafts	8.22%	On demand	3,849,380	5.58%	On demand	4,701,191	5.34%	On demand	2,803,353
Short term bank loans	7.97% to 9.50%	2008	96,241,792	5.00% to 6.59%	2009	71,818,882	5.00% to 6.45%	2010	55,606,788
			<u>100,091,172</u>			<u>76,520,073</u>			<u>58,410,141</u>

An analysis of the bank borrowings that were secured by certain assets of the Group is as follows:

	As at 31 December		As at 30 June
	2007	2008	2009
	HK\$	HK\$	HK\$
Short term bank loans, secured by certain assets of the Group	<u>52,587,296</u>	<u>11,340,661</u>	<u>22,348,800</u>
Secured by:			
Trade receivables (note 17)	15,214,144	–	–
Bills receivable (note 17)	<u>37,373,152</u>	<u>11,340,661</u>	<u>22,348,800</u>
	<u>52,587,296</u>	<u>11,340,661</u>	<u>22,348,800</u>

In addition, certain of the Group's interest-bearing bank borrowings during the Relevant Periods were secured by:

- (i) mortgages over certain properties situated in Hong Kong owned by Jack Lau Limited;
- (ii) the pledge of certain investments owned by Dr. Jack Lau, a director of the Company, for the period from 1 January 2007 to 16 June 2008;
- (iii) the pledge of a deposit of HK\$5,000,000 of Dr. Jack Lau since 17 June 2008; and/or
- (iv) the pledge of cash deposits and/or investments of an aggregate amount not less than HK\$10 million by Increasing Grace Limited ("Increasing Grace"), a company in which a family member of Dr. Jack Lau has a significant interest.

Dr. Jack Lau, Mr. Heung, Lap Chi Eugene, Mr. Paulo Lam, a beneficial shareholder of the Company, and Increasing Grace have provided personal, joint and several, or corporate guarantees for the Group's banking facilities up to an aggregate guarantee amount of HK\$133,750,000, HK\$124,750,000 and HK\$118,750,000 as at 31 December 2007, 31 December 2008 and 30 June 2009, respectively. The personal guarantee provided by Mr. Paulo Lam for the Group's banking facilities was fully released during the year ended 31 December 2008.

In connection with certain banking facilities of the Group during the Relevant Periods, a deed of undertaking was entered, whereby (a) Jack Lau Limited undertook not to recover certain loan amount due from Perception Digital (BVI) or re-assign the loan amount without the prior written consent of a creditor banker of the Group; and (b) Perception Digital (BVI) undertook not to declare or distribute any dividends of more than 50% of its profit (if any) for each financial year. Such undertaking is no longer required pursuant to the latest banking facilities letter issued by the relevant bank.

The pledges of deposits of and/or certain properties and/or investments owned by Dr. Jack Lau, Jack Lau Limited, Mr. Heung, Lap Chi Eugene or Increasing Grace, and all personal, joint and several, or corporate guarantees given by Dr. Jack Lau, Mr. Heung, Lap Chi Eugene and Increasing Grace for the Group's banking facilities will be released or replaced by corporate guarantees provided by our Company upon the Listing of our Company's Shares on the Stock Exchange, conditional upon, among other things, (i) certain indebtedness being repaid upon the Listing, (ii) the provision of alternative securities in favor of the relevant banks by our Group such as credit insurance policies, corporate guarantees and charges on deposits by our Group, and (iii) that the relevant bank received satisfactory evidence that the consolidated net asset value of our Group shall be not less than a certain amount.

Except for certain bank borrowings amounting to HK\$68,967,277, HK\$24,431,206 and HK\$40,049,264 as at 31 December 2007, 31 December 2008 and 30 June 2009, respectively, which are denominated in United States dollars, all the bank borrowings of the Group are denominated in Hong Kong dollars.

25. DEFERRED TAX ASSETS/LIABILITIES

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$	Deferred development costs HK\$	Total HK\$
At 1 January 2007	67,500	-	67,500
Deferred tax credited to the income statement during the year*	<u>(67,500)</u>	<u>-</u>	<u>(67,500)</u>
Gross deferred tax liabilities at 31 December 2007 and at 1 January 2008	-	-	-
Deferred tax charged to the income statement during the year*	<u>171,546</u>	<u>269,087</u>	<u>440,633</u>
Gross deferred tax liabilities at 31 December 2008 and at 1 January 2009	171,546	269,087	440,633
Deferred tax charged/(credited) to the income statement during the period*	<u>(6,192)</u>	<u>527,345</u>	<u>521,153</u>
Gross deferred tax liabilities at 30 June 2009	<u><u>165,354</u></u>	<u><u>796,432</u></u>	<u><u>961,786</u></u>

Deferred tax assets

	Depreciation in excess of related depreciation allowance <i>HK\$</i>	Losses available for offsetting against future taxable profits <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2007	–	12,897,500	12,897,500
Deferred tax credited/(charged) to the income statement during the year*	<u>78,122</u>	<u>(7,815,815)</u>	<u>(7,737,693)</u>
Gross deferred tax assets at 31 December 2007 and at 1 January 2008	78,122	5,081,685	5,159,807
Deferred tax charged to the income statement during the year*	<u>(78,122)</u>	<u>(3,163,083)</u>	<u>(3,241,205)</u>
Gross deferred tax assets at 31 December 2008 and at 1 January 2009	–	1,918,602	1,918,602
Deferred tax credited to the income statement during the period*	<u>–</u>	<u>156,618</u>	<u>156,618</u>
Gross deferred tax assets at 30 June 2009	<u>–</u>	<u>2,075,220</u>	<u>2,075,220</u>

* Net deferred tax charged to the income statement during the years ended 31 December 2007 and 2008 and the six months ended 30 June 2008 and 2009 amounted to HK\$7,670,193, HK\$3,681,838, HK\$274,351 and HK\$364,535, respectively (note 11).

For the purpose of the combined statement of financial position presentation, the deferred tax assets and liabilities that relate to the same taxable entity and the same taxation authority have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December		As at
	2007	2008	30 June
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Net deferred tax assets recognized in the combined statement of financial position	<u>5,159,807</u>	<u>1,477,969</u>	<u>1,113,434</u>

26. SHARE CAPITAL AND EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The share capital balances as presented in the combined statements of financial position as at 31 December 2007, 31 December 2008 and 30 June 2009 represent the issued and fully paid share capital of Perception Digital (BVI) of HK\$95,316 divided into 122,201 ordinary shares of US\$0.10 each. As at 31 December 2007, 31 December 2008 and 30 June 2009, Perception Digital (BVI) had authorized share capital of US\$50,000 (equivalent to HK\$390,000) divided into 500,000 ordinary shares of US\$0.10 each. Perception Digital (BVI) is a subsidiary of the Company, which was the direct/indirect holding company of all the other subsidiaries of the Group at the end of the respective reporting periods, as described on Page I-1 of this report.

On 17 September 2009, pursuant to the resolutions in writing of the shareholders of Perception Digital (BVI), Perception Digital (BVI) issued and allotted 4,998 shares and 4,778 shares in its share capital to Masteray Limited, a company wholly owned by Ms. Loh, Jiah Yee Katherine, and UGH Investment Holding Limited, a company wholly owned by Ms. Leung, Yee Li Lana, respectively, credited as fully paid by capitalizing portions of the Group's outstanding loans from Jack Lau Limited and Mr. Heung, Lap Chi Eugene as at 17 September 2009.

During the year ended 31 December 2007, an aggregate of 7,821 ordinary shares of Perception Digital (BVI) of US\$0.1 each with a total nominal amount of HK\$6,100 (the "Shares") were issued and allotted to certain entities designated by/related to/for the benefit of, Dr. Jack Lau and Mr. Chui Shing Yip, employees of the Group and also the current directors of the Company, for the purpose of providing incentives/rewards for their contributions to the success of the Group (note 9).

The cost of the Equity-settled Share-based Payment Transactions was measured by reference to the fair value of the Shares at the date at which they were granted, taking into account the terms and conditions upon which the Shares were granted. The fair value of the Shares was determined using the asset approach (adjusted book value method), with reference to the book values of the assets and liabilities of the Group.

The Company was incorporated in the Cayman Islands on 11 September 2009, with an authorized share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each, one of which was allotted and issued nil paid to the subscriber on the same date, which was transferred to Masteray Limited on that date. Subsequently, in November 2009, an additional 131,976 shares of the Company were issued in connection with the Reorganization. On 27 November 2009, written resolutions of the shareholders of the Company were passed to approve, among other things, the increase in the authorized share capital of the Company from HK\$380,000 to HK\$200,000,000 by the creation of an additional 1,996,200,000 shares of HK\$0.10 each and a capitalisation issue. Further details of the Company's share capital and the capitalization issue are also set out in Appendix VI to the Prospectus.

27. CONTINGENT LIABILITIES

As at 31 December 2007, 31 December 2008 and 30 June 2009, neither the Group nor the Company had any significant contingent liabilities.

28. 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 respective reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		As at
	2007	2008	30 June
	HK\$	HK\$	2009
			HK\$
Within one year	1,394,861	1,036,017	2,323,838
In the second to fifth years, inclusive	285,786	276,364	244,959
	<u>1,680,647</u>	<u>1,312,381</u>	<u>2,568,797</u>

29. RELATED PARTY TRANSACTIONS

- (a) In addition to notes 7, 9, 19, 22, 23, 24 and 26 under Section II of this report, the Group had the following material transactions with related parties during the Relevant Periods and the six months ended 30 June 2008:

	Notes	Year ended 31 December		Six months ended 30 June	
		2007 HK\$	2008 HK\$	2008 HK\$	2009 HK\$
Management consultancy fee charged by a related company	(i)	4,189,000	4,803,240	2,430,000	453,720
Management consultancy fee charged by a director	(ii)	120,000	165,000	90,000	-
		<u>4,309,000</u>	<u>4,968,240</u>	<u>2,520,000</u>	<u>453,720</u>

The above related party transactions will be discontinued subsequent to the listing of the shares of the Company on the Stock Exchange.

- (i) The management consultancy fee was charged by Jack Lau Limited based on terms agreed between the two parties.
- (ii) The management consultancy fee was charged by Dr. Tsui Chi Ying based on terms agreed between the two parties.
- (b) Compensation of key management personnel of the Group, including amounts paid to the Company's directors, is as follows:

	Year ended 31 December		Six months ended 30 June	
	2007 HK\$	2008 HK\$	2008 HK\$	2009 HK\$
Short term employee benefits	6,508,846	7,366,142	3,042,820	2,841,167
Equity-settled share-based payment expense	6,100	-	-	-
Post-employment benefits	39,000	55,000	25,000	29,000
	<u>6,553,946</u>	<u>7,421,142</u>	<u>3,067,820</u>	<u>2,870,167</u>

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the respective reporting periods are as follows:

Financial assets

	As at 31 December		As at 30 June
	2007	2008	2009
	HK\$	HK\$	HK\$
Loans and receivables:			
Rental deposits	382,599	571,154	–
Trade and bills receivables	241,400,629	195,167,739	106,370,915
Financial assets included in prepayments, deposits and other receivables	1,338,843	2,215,274	4,874,896
Due from a director	–	11,511,364	14,918,486
Pledged deposit	775,731	796,676	804,260
Cash and bank balances	26,215,458	9,356,415	9,249,109
	<u>270,113,260</u>	<u>219,618,622</u>	<u>136,217,666</u>
Available- for-sale financial asset:			
Available-for-sale investment	510,200	–	–
Total	<u>270,623,460</u>	<u>219,618,622</u>	<u>136,217,666</u>

Financial liabilities

	As at 31 December		As at 30 June
	2007	2008	2009
	HK\$	HK\$	HK\$
Financial liabilities at amortized cost:			
Trade payables	171,180,657	153,016,365	84,297,510
Financial liabilities included in other payables and accruals	20,546,960	15,163,715	13,339,936
Due to a director	8,753,509	–	–
Loans from related parties	26,165,397	27,615,397	31,979,677
Loan from a shareholder	525,620	525,620	525,620
Interest-bearing bank borrowings	100,091,172	76,520,073	58,410,141
	<u>327,263,315</u>	<u>272,841,170</u>	<u>188,552,884</u>

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, loans from related parties and a shareholder, and cash and bank balances. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, rental deposits, financial assets included in deposits and other receivables, pledged deposit, financial liabilities included in other payables and accruals, and balances with a director, 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 summarized below.

Interest risk

The Group's exposure to the risk of changes in market interest rates relates primarily to loans from related parties and a shareholder, and 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 monitoring closely the movements in interest rates and reviewing its available credit facilities and their utilization regularly.

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 before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$
Year ended 31 December 2007		
Hong Kong dollar	25	(129,815)
Hong Kong dollar	(25)	129,815
United States dollar	25	(185,826)
United States dollar	(25)	185,826
Year ended 31 December 2008		
Hong Kong dollar	25	(130,222)
Hong Kong dollar	(25)	130,222
United States dollar	25	(61,078)
United States dollar	(25)	61,078
Six months ended 30 June 2009		
Hong Kong dollar	25	45,902
Hong Kong dollar	(25)	(45,902)
United States dollar	25	100,123
United States dollar	(25)	(100,123)

Foreign currency risk

The Group has transactional currency exposures. Such exposures 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 United States dollar as their functional currency, their foreign currency transactions during the Relevant Periods, and the units' monetary assets and liabilities denominated in foreign currencies that were retranslated at the functional currency rates of exchange ruling as at 31 December 2007, 31 December 2008 and 30 June 2009 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, management considers the Group's foreign currency risk exposure to be low.

Credit risk

The Group primarily trades with recognized and creditworthy third parties. It is the Group's policy that advanced payments are generally required for new customers. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Since the Group primarily trades with recognized and creditworthy third parties, there is normally no requirement for collateral.

The credit risk of the Group's financial assets, which comprise trade and bills receivables, cash and bank balances, an available-for-sale investment, rental deposits, financial assets included in deposits and other receivables, an amount due from a director and a pledged deposit, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. At 31 December 2007, 31 December 2008 and 30 June 2009, the Group has certain concentration of credit risk as 66.7%, 83.9% and 68.4%, respectively, of the Group's trade and bills receivables were due from the Group's largest customer and 86.4%, 94.7% and 83.2%, respectively, of the Group's trade and bills receivables were due from the Group's five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables, and financial assets included in deposits and other receivables are disclosed in notes 17 and 18 under Section II of this report.

Liquidity risk

The Group operates with a working capital deficit and the liquidity of the Group is primarily dependent on funds generated from operations and external financing. Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, other interest-bearing loans and standby credit facilities. The Group aims to maintain sufficient cash and bank balances and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings/advances.

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial liabilities and financial assets (for example, trade and bills receivables) and projected cash flows from operations.

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

	31 December 2007			
	No fixed terms of repayment/ on demand	Less than 1 year	1 to 5 years	Total
	HK\$	HK\$	HK\$	HK\$
Trade payables	–	171,180,657	–	171,180,657
Financial liabilities included in other payables and accruals	–	16,689,076	–	16,689,076
Due to a director	8,753,509	–	–	8,753,509
Loans from related parties and a shareholder	29,404,324	–	671,149	30,075,473
Interest-bearing bank borrowings	4,322,808	98,039,946	–	102,362,754
	<u>42,480,641</u>	<u>285,909,679</u>	<u>671,149</u>	<u>329,061,469</u>

	31 December 2008			
	No fixed terms of repayment/ on demand HK\$	Less than 1 year HK\$	1 to 5 years HK\$	Total HK\$
Trade payables	–	153,016,365	–	153,016,365
Financial liabilities included in other payables and accruals	–	11,375,321	–	11,375,321
Loans from related parties and a shareholder	30,854,324	–	671,149	31,525,473
Interest-bearing bank borrowings	4,986,935	72,994,339	–	77,981,274
	<u>35,841,259</u>	<u>237,386,025</u>	<u>671,149</u>	<u>273,898,433</u>
	30 June 2009			
	No fixed terms of repayment/ on demand HK\$	Less than 1 year HK\$	1 to 5 years HK\$	Total HK\$
Trade payables	–	84,297,510	–	84,297,510
Financial liabilities included in other payables and accruals	–	9,554,577	–	9,554,577
Loans from related parties and a shareholder	35,218,604	–	671,149	35,889,753
Interest-bearing bank borrowings	2,950,529	56,479,336	–	59,429,865
	<u>38,169,133</u>	<u>150,331,423</u>	<u>671,149</u>	<u>189,171,705</u>

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 maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

Capital of the Group comprises all components of shareholders' equity.

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

At the end of the respective reporting periods, the carrying amounts of the Group's financial assets and liabilities approximate to their fair values, except for an unlisted equity investment with a carrying amount of HK\$510,200 as at 31 December 2007, in which its fair value could not be reliably measured and was stated at cost less impairment as further detailed in note 15 under Section II of this report.

III. SUBSEQUENT EVENTS

The companies now comprising the Group underwent and completed a Reorganization on 30 November 2009 in preparation for the listing of the shares of the Company on the Stock Exchange. Further details of the Reorganization are set out in the section headed "Corporate Reorganization" in Appendix VI to the Prospectus. As a result of the Reorganization, the Company became the holding company of Perception Digital (BVI).

On 27 November 2009, written resolutions of the shareholders of the Company were passed to approve the matters set out in the section headed "Written resolutions of all the Shareholders of our Company passed on 27 November 2009" in Appendix VI to the Prospectus.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 30 June 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong