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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8248)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the "Directors") of Perception Digital Holdings Limited (the "Company") and its subsidiaries (together, the "Group") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Director, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

- The shares of the Company were listed on GEM of the Stock Exchange commencing on 16 December 2009.
- The turnover of the Group for the year ended 31 December 2009 was approximately HK$548.1 million, which is comparable to that for the year ended 31 December 2008.
- Profit attributable to equity holders of the parent increased by approximately 238.4% from HK$8.2 million for the year ended 31 December 2008 to HK$27.6 million for the year ended 31 December 2009.

ANNUAL RESULTS

The Board of Directors (the "Board") of the Company is pleased to announce the annual consolidated results of the Group for the year ended 31 December 2009 together with the comparative figures for the corresponding period in 2008.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 HK$	2008 HK$
REVENUE	*4*	**548,148,089**	555,780,401
Cost of sales		**(461,530,840)**	(460,446,469)
Gross profit		**86,617,249**	95,333,932
Other income	*5*	**899,908**	582,718
Research and development costs		**(15,629,989)**	(26,273,609)
Selling and distribution costs		**(13,946,828)**	(15,556,055)
General and administrative expenses		**(26,146,395)**	(31,978,348)
Other expenses, net		**(518,912)**	(4,603,711)
Finance costs	*6*	**(3,882,964)**	(4,821,828)
PROFIT BEFORE TAX	*7*	**27,392,069**	12,683,099
Income tax credit/(expense)	*8*	**234,335**	(4,520,419)
PROFIT FOR THE YEAR		**27,626,404**	8,162,680
Attributable to:			
Owners of the parent		**27,626,404**	8,162,680
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted		**HK 6.1 cents**	HK 1.8 cents

Details of the dividends payable and proposed for the year are disclosed in note 10.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009	2008
	HK$	*HK$*
PROFIT FOR THE YEAR	**27,626,404**	8,162,680
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation	**456,507**	886,002
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**28,082,911**	9,048,682
Attributable to:		
Owners of the parent	**28,082,911**	9,048,682

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$	2008 HK$
NON-CURRENT ASSETS			
Property, plant and equipment		**4,848,927**	6,200,885
Deferred development costs		**7,691,097**	2,288,775
Rental deposits		**—**	571,154
Deposits for purchase of items of property, plant and equipment		**221,119**	—
Deferred tax assets		**211,842**	1,477,969
Total non-current assets		**12,972,985**	10,538,783
CURRENT ASSETS			
Inventories		**9,897,959**	9,168,561
Trade and bills receivables	*11*	**333,640,342**	195,167,739
Prepayments, deposits and other receivables		**10,276,488**	5,332,801
Due from a director		**—**	11,511,364
Pledged deposit		**856,650**	796,676
Cash and bank balances		**63,056,902**	9,356,415
Total current assets		**417,728,341**	231,333,556
CURRENT LIABILITIES			
Trade payables	*12*	**293,073,215**	153,016,365
Other payables and accruals		**13,133,712**	17,533,916
Loans from related parties		**—**	27,615,397
Interest-bearing bank borrowings		**35,442,757**	76,520,073
Tax payable		**557,502**	2,393,461
Provision		**1,363,363**	201,211
Total current liabilities		**343,570,549**	277,280,423
NET CURRENT ASSETS/(LIABILITIES)		**74,157,792**	(45,946,867)
TOTAL ASSETS LESS CURRENT LIABILITIES		**87,130,777**	(35,408,084)
NON-CURRENT LIABILITIES			
Loan from a shareholder		**—**	525,620
Interest-bearing bank borrowing		**4,824,819**	—
Deferred tax liabilities		**53,057**	—
Total non-current liabilities		**4,877,876**	525,620
Net assets/(liabilities)		**82,252,901**	(35,933,704)
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**60,000,000**	—
Reserves	*13*	**22,252,901**	(35,933,704)
		82,252,901	(35,933,704)

NOTES:

1.1 CORPORATE INFORMATION

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

During the year, the Group was primarily involved in the research, design and development of digital signal processing ("DSP") platform and the provision of embedded firmware and "end-to-end" turnkey solutions to customers for their DSP-based consumer electronic devices.

1.2 REORGANISATION AND BASIS OF PREPARATION

Pursuant to a group reorganisation (the "Reorganisation") for the purpose of listing (the "Listing") the Company's ordinary shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company was incorporated and interspersed between Perception Digital Technology (BVI) Ltd. ("Perception Digital BVI"), the direct/indirect holding company of all the other subsidiaries of the Group prior to the Reorganisation, and the equity holders of Perception Digital BVI and became the holding company of Perception Digital BVI and its subsidiaries. Further details of the Reorganisation are also set out in the section headed "Corporate Reorganisation" in Appendix VI "Statutory and General Information" to the prospectus of the Company dated 4 December 2009 (the "Prospectus") in connection with the Listing. The Company's shares have been listed on the Stock Exchange since 16 December 2009.

As the Reorganisation 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 consolidated financial statements of the Group for the years ended 31 December 2008 and 2009 have been presented as a continuation of the existing group using the pooling of interest method. Accordingly, the consolidated income statement and the consolidated statement of comprehensive income are prepared as if the current group structure had been in existence throughout the years ended 31 December 2008 and 2009 rather than from the date of incorporation of the Company. The comparative consolidated statement of financial position as at 31 December 2008, presents the assets and liabilities of the companies now comprising the Group, which had been incorporated/established as at the end of the reporting period, as if the current group structure had been in existence since 1 January 2008.

2. BASIS OF PREPARATION

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

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

3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: *Presentation — Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: *Recognition and Measurement — Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendment	Amendment to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[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 annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

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

4. REVENUE AND OPERATING SEGMENT INFORMATION

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 year.

An analysis of revenue is as follows:

	2009	2008
	HK$	*HK$*
Sales of goods	**515,289,134**	505,477,414
Rendering of services	**13,259,100**	12,589,614
Royalty income	**19,599,855**	37,713,373
	548,148,089	555,780,401

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

Geographical information

The following tables present revenue from external customers for the years ended 31 December 2009 and 2008, and certain non-current assets information as at 31 December 2009 and 2008, by geographical areas.

	Europe	**United States of America**	**Mainland China**	**Hong Kong**	**Others**	**Total**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Year ended 31 December 2009						
Revenue from external customers	279,351,955	48,040,682	48,233,858	155,532,329	16,989,265	548,148,089
Year ended 31 December 2008						
Revenue from external customers	62,096,096	21,806,323	437,417,276	28,846,030	5,614,676	555,780,401
At 31 December 2009						
Non-current assets	—	—	3,464,678	9,296,465	—	12,761,143
At 31 December 2008						
Non-current assets	—	—	3,730,346	5,330,468	—	9,060,814

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

4. REVENUE AND OPERATING SEGMENT INFORMATION *(Continued)*

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:

	2009	2008
	HK$	*HK$*
Customer A	**462,799,780**	458,190,724
Customer B	**—**	58,804,519

5. OTHER INCOME

	2009	2008
	HK$	*HK$*
Bank interest income	**14,548**	178,463
Handling income	**—**	404,255
Marketing and service income	**149,507**	—
Management service income	**735,853**	—
	899,908	582,718

6. FINANCE COSTS

	2009	2008
	HK$	*HK$*
Interest on bank loans and overdrafts wholly repayable within five years	**3,111,191**	4,045,560
Bank charges	**771,773**	776,268
	3,882,964	4,821,828

7. PROFIT BEFORE TAX

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

	2009	2008
	HK$	*HK$*
Cost of inventories sold and services rendered	**461,530,840**	460,446,469
Depreciation	**2,907,774**	2,822,235
Amortisation of deferred development costs^	**2,781,578**	—
Impairment of items of property, plant and equipment*	**503,974**	1,561,331
Impairment of an available-for-sale investment*	**—**	510,200
Impairment of an other financial asset#	**—**	2,340,000
Write-down of inventories to net realisable value^	**808,772**	7,133,992
Product warranty provision:		
Additional provision	**1,628,040**	99,923
Reversal of unutilised provision	**(27,007)**	—
	1,601,033	99,923
Loss on disposal of items of property, plant and equipment, net	**12,861**	88,752

7. PROFIT BEFORE TAX *(Continued)*

* 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 consolidated income statement.

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

During the year ended 31 December 2008, the Group recognised an impairment of an other financial asset of HK$2,340,000 that related to a counterparty that was in default/financial difficulties. The Group does not hold any collateral or other credit enhancement over such asset.

8. INCOME TAX

No provision for Hong Kong profits tax has been made for the current year as the Group has available tax losses brought forward from prior years to offset the assessable profits arising in Hong Kong generated during the current year. Hong Kong profits tax was provided in the prior year at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2009	2008
	HK$	*HK$*
Group:		
Current — Hong Kong:		
— Underprovision in prior years	**—**	284,419
Current — Elsewhere:		
— Charge for the year	**—**	554,162
— Overprovision in prior years	**(1,553,519)**	—
	(1,553,519)	838,581
Deferred	**1,319,184**	3,681,838
Total tax charge/(credit) for the year	**(234,335)**	4,520,419

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

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on:

	2009	2008
	HK$	*HK$*
Earnings		
Profit attributable to ordinary equity holders of the parent	**27,626,404**	8,162,680

	Number of shares	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year	**456,575,342**	450,000,000

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 450,000,000 ordinary shares of the Company issued pursuant to the Reorganisation and a capitalisation issue were deemed to have been issued since 1 January 2008.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

10. DIVIDEND

	2009	2008
	HK$	*HK$*
Proposed final — HK0.5 (2008: Nil) cent per ordinary share	**3,000,000**	—

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company and compliance with the Companies Law of the Cayman Islands and other relevant rules/regulations.

11. TRADE AND BILLS RECEIVABLES

	Group	
	2009	2008
	HK$	*HK$*
Trade and bills receivables	**334,686,504**	197,121,422
Impairment	**(1,046,162)**	(1,953,683)
	333,640,342	195,167,739

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.

11. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2009	2008
	HK$	*HK$*
At 1 January	**1,953,683**	2,206,410
Impairment losses recognised	**36,436**	369,461
Amount written off as uncollectible	**(860,152)**	(356,155)
Impairment losses reversed	**(83,805)**	(266,033)
At 31 December	**1,046,162**	1,953,683

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$1,046,162 (2008: HK$1,953,683) with a carrying amount before provision of HK$1,077,142 (2008: HK$3,984,986). 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:

	Group	
	2009	2008
	HK$	*HK$*
Neither past due nor impaired	**317,061,244**	147,987,737
Less than 31 days past due	**12,849,858**	36,146,467
31 to 60 days past due	**398,882**	6,285,770
61 to 90 days past due	**2,568,088**	1,176,739
Over 90 days	**731,290**	1,539,723
	333,609,362	193,136,436

12. TRADE PAYABLES

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

	Group	
	2009	2008
	HK$	*HK$*
Within 30 days	**166,912,980**	17,606,894
31 to 60 days	**75,766,896**	129,496,921
Over 60 days	**50,393,339**	5,912,550
	293,073,215	153,016,365

The trade payables are non-interest-bearing and the credit terms generally granted by suppliers are 30 to 90 days.

13. RESERVES

The movements of the Group's reserves during the year are as follows:

	2009	2008
	HK$	*HK$*
At beginning of the year	**(35,933,704)**	(44,982,386)
Total comprehensive income	**28,082,911**	9,048,682
Issue of new shares in connection with a placing and public offer (collectively the "Share Offer")	**93,000,000**	—
Capitalisation of share premium pursuant to a capitalisation issue (the "Capitalisation Issue")	**(44,986,802)**	—
Share issue costs	**(17,955,434)**	—
Waiver of amounts due to related parties	**45,930**	—
At end of the year	**22,252,901**	(35,933,704)

Further details of the Share Offer and the Capitalisation Issue are also set out in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW

Being affected by the global economic downturn, the Group's turnover slightly decreased by 1.4% to HK$548.1 million for the year ended 31 December 2009. In order to mitigate the impact from the downturn economy, the Group had implemented certain cost saving measures in respect of staff costs, rental expenses and professional fees, which enabled us to increase our net profit from HK$8.2 million in 2008 to HK$27.6 million in 2009.

In 2009, the Group successfully launched its well-being and fitness products and its own branded "Live-Lite" series of products in July 2009, which enabled the Group to expand its product mix. The "Live-Lite" well-being and fitness products are audio players which have biometric measurement features suitable for fitness or sport applications, such as heart rate monitor and three-axis G-sensor pedometer which assist the users in improving the accuracy in their physical training.

In addition, we have been developing our open source-based devices since 2008. During the year ended 31 December 2009, we received a non-legally binding letter from one of the leading television station operators in Hong Kong for engaging our support in the provision of mobile television devices which are intended to be open source-based. Our experience in developing open source-based system has already helped us to generate our first design win with a major Fortune 500 customer.

In terms of our revenue breakdown, our revenue from sale of goods, royalty fees and income from rendering of services contributed approximately 94.0% (2008: 90.9%), 3.6% (2008: 6.8%) and 2.4% (2008: 2.3%), respectively. During the year under review, the majority of our products were shipped to Europe, whereas the majority of our goods in 2008 were shipped to Mainland China. This was mainly because of the change in our product sold and delivery arrangements with one of our major customers. In 2008, the Group delivered semi-finished products and components to that customer for further assembly in Mainland China. In early 2009, the Group was able to resume the provision of "end-to-end" solutions and finished products to that customer, with the finished goods mainly delivered to European countries.

FINANCIAL REVIEW

Results of the Group

Turnover

The turnover of the Group for the year ended 31 December 2009 was approximately HK$548.1 million, which is comparable to that for the year ended 31 December 2008.

Cost of sales

Cost of sales of the Group slightly increased by approximately 0.2% from HK$460.4 million for the year ended 31 December 2008 to HK$461.5 million for the year ended 31 December 2009.

Gross profit and margin

As a result of the foregoing, the gross profit of the Group decreased by 9.1%, from approximately HK$95.3 million for the year ended 31 December 2008 to HK$86.6 million for the year ended 31 December 2009. The gross profit margin decreased from 17.2% for the year ended 31 December 2008 to 15.8% for the year ended 31 December 2009. The decrease in gross profit margin was mainly attributable to the decrease in our royalty fee income for the current financial year, which has a higher gross profit margin than that of the sale of goods.

Other income

Other income of the Group increased by 54.4%, from approximately HK$583,000 for the year ended 31 December 2008 to approximately HK$900,000 for the year ended 31 December 2009, primarily because of the income from the rendering of marketing and management services during the year ended 31 December 2009.

Research and development costs

Research and development costs decreased by 40.5% from HK$26.3 million for the year ended 31 December 2008 to HK$15.6 million for the year ended 31 December 2009, primarily due to the increase in capitalisation of research and development costs as a result of the increase in projects fulfilling our capitalisation criteria during the year ended 31 December 2009 and, accordingly, an increase in the amortisation charge for the year.

Selling and distribution costs

Selling and distribution costs decreased by 10.3% from HK$15.6 million for the year ended 31 December 2008 to HK$13.9 million for the year ended 31 December 2009, primarily resulting from the decrease in revenue and also certain cost saving measures including but not limited to reduction in staff costs and tightening of certain reimbursement policy on travelling expenses, which we implemented during the year ended 31 December 2009.

General and administrative expenses

General and administrative expenses decreased by HK$5.8 million, or approximately 18.2%, from HK$32.0 million for the year ended 31 December 2008 to HK$26.1 million for the year ended 31 December 2009, primarily as a result of certain cost saving measures implemented during the year ended 31 December 2009, including but not limited to reduction in staff costs, legal and professional fees and decrease in rental expenses.

Finance costs

Finance costs decreased by HK$0.9 million, or approximately 19.5%, from HK$4.8 million for the year ended 31 December 2008 to HK$3.9 million, primarily due to the decrease in weighted average balance of our bank loans and reduction in bank borrowing rates, which lowered our interest expense under such loans during the year ended 31 December 2009.

Income tax credit/(expense)

Income tax balance turned from an income tax expense of HK$4.5 million for the year ended 31 December 2008 to an income tax credit of approximately HK$234,000 for the year ended 31 December 2009, which was resulted from (i) agreement by tax authority of certain expenses incurred in the prior years as deductible which can be utilised for offset against the current and future taxable income generated by the Group; and (ii) an overprovision of income tax in relation to the prior years, which amounted to HK$1.6 million being adjusted during the year ended 31 December 2009.

Capital Structure and Gearing Ratio

	2009 ***HK$***
Total bank borrowings	**40,267,576**
Equity	**82,252,091**
	122,519,667
Gearing ratio	**32.9%**

The gearing ratio for the year ended 31 December 2008 is not presented as the Group was in a net liabilities position of approximately HK$36.0 million as at 31 December 2008.

As at 31 December 2009, the maturity profile of the bank borrowings of the Group falling due within one year, in the second year and the third to fifth years, inclusive, amounted to approximately HK$35.4 million (2008: HK$76.5 million), HK$1.1 million (2008: Nil) and HK$3.7 million (2008: Nil), respectively.

Liquidity and Financial Resources

	2009	2008
	HK$	*HK$*
Current assets	**417,728,341**	231,333,556
Current liabilities	**343,570,549**	277,280,423
Current ratio	**1.22**	0.83

The current ratio of the Group improved from 0.83 times as at 31 December 2008 to 1.22 times as at 31 December 2009 mainly resulting from the net proceeds raised from the placing and public offer of the shares of the Company on the Stock Exchange on 16 December 2009. As at 31 December 2009, cash and bank balances of the Group amounted to approximately HK$63.1 million (2008: HK$9.4 million), and approximately HK$0.9 million (2008: HK$1.7 million) of which are denominated in Renminbi.

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

Charges on Group's Assets

As at 31 December 2009, certain of the Group's assets with a carrying value of approximately HK$7.7 million (2008: HK$11.3 million) were pledged to secure certain banking facilities granted to the Group.

Foreign Currency Exposure

The foreign currency exposure of the Group primarily arises from revenue and income generated, cost and 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 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 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, we consider the Group's foreign currency risk exposure is not significant.

Contingent Liabilities

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

Significant Investments

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

Material Acquisitions or Disposals

During the years ended 31 December 2009 and 2008, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2009, the Group employed a total of 243 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$43.3 million before any capitalisation for the year ended 31 December 2009.

The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonus, medical insurance, provident fund, education subsidy and training to its employees. The Company adopted a share option scheme on 27 November 2009, under which the Company can grant options to, among others, employees of the Group to subscribe for shares of the Company with a view to rewarding them for their contributions to the Group and giving incentives to them for optimizing their future contributions to the Group. Up to the date of this announcement, no share option has been granted under such share option scheme.

EVENTS AFTER THE REPORTING PERIOD

On 8 January 2010, the Company announced that the over-allotment option (the "Over-Allotment Option") referred to in the Prospectus was fully exercised in respect of an aggregate of 22,500,000 shares of the Company. The listing of and dealing in the said 22,500,000 shares commenced on the GEM of the Stock Exchange on 13 January 2010.

The total number of the ordinary shares of the Group in issue was 600,000,000 shares as at 31 December 2009 and was increased to 622,500,000 shares as at the date of this announcement.

On 10 March 2010, the Company announced that Prof. Tsui Chi Ying, previously an executive Director of the Company, has been re-designated as a non-executive Director of the Company with effect from 10 March 2010. Subsequent to the re-designation, his remuneration was adjusted to HK$180,000 per annum, whereas his term of office remains unchanged.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

Comparison between business objectives with actual business progress

An analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress for the period from 30 November 2009, being the latest practicable date as defined in the Prospectus, to 31 December 2009 is set out below:

Business objective for the period from 30 November 2009 to 31 December 2009 as stated in the Prospectus	Actual business progress up to 31 December 2009
1. Product and technology development	The Group has successfully developed the daily logging system and information sharing platform, "HearPal Online", for use on Facebook for its "Live-Lite" series of products. The Group has continued to develop open source-based multimedia Internet devices.
2. Broadening market coverage and expansion of sales network	The Group is in discussions with a major consumer electronics and fitness equipment original equipment manufacturer in relation to co-branding and/or co-marketing for the "Live-Lite" series of products.

Use of Proceeds

The Company raised approximately HK$108.0 million and HK$16.2 million of gross proceeds through the initial placing and public offer of the shares of the Company and the exercise of the Over-Allotment Option, respectively. As at 31 December 2009, approximately HK$32.8 million from the net proceeds had been utilised for repaying certain bank borrowings of the Group.

OUTLOOK

We believe that the continued advance of the Group's technological capability is essential to our future success and our R&D professionals are vital to this end. The Group launched our own branded "Live-Lite" series of products in 2009. In 2010, we intend to expand our strategic partnerships to include some of the world's leading well-being and fitness manufacturers to co-develop new products and target wider market demands. We also have plans to continue to enhance our "Live-Lite" series of products and introduce additional advanced features, such as lower power consumption, enhanced G-sensor algorithm and GPS functions. We also plan to debut new applications in the "Live-Lite" series during 2010 which cater for sports such as cycling, rowing and swimming thereby expanding its market coverage.

In the coming year, we also intend to integrate additional features into our portable personal entertainment devices delivering more functionality without increasing their cost and/or size. In particular, we will expand the capability of our products to leverage the social networking aspects of Web 2.0 technologies, thereby riding on the rapidly spreading popularity of these applications. Consumers can soon enjoy connecting with their friends through Facebook and YouTube, with our products.

We intend to develop open source-based devices which would most effectively utilise the technology know-how of our Group including but not limited to DSP technology. Since 2008, we have been developing open source-based firmware and applications for DSP-based consumer electronic devices. We have already initiated discussions with our customers and potential customers about development and production of open source-based digital mobile devices such as mobile Internet devices, mobile television and smartphones. Our first open source-based product is expected to launch in 2010.

In terms of our market coverage and sales network, we will devote resources to expand our market coverage and sales network in the domestic consumer market of the PRC. We are in active discussion with PRC manufacturers towards initiating strategic alliance with the PRC manufacturers with the aim to accelerate the penetration of our products in the PRC market, while promoting and licensing our technologies to these manufacturers of consumer electronic devices. To further advance these efforts, we expect to establish a domestic sales channel in the PRC during 2010.

We expect the consumer electronics market will grow in 2010 and our customers are prepared to capture the rise of consumer spendings with attractive products and we see a great potential for us to reach new heights as we grow with our customers and the market. Through our strong R&D team, unique design and supply chain services, and by continuously striving for innovation in our products, we are confident that the Group is well positioned for future growth and good prospects in the years ahead.

FINAL DIVIDEND

In view of the Group's favorable operating results for 2009 and having taken into consideration its long-term future development, the Board recommends payment of a final dividend of HK0.5 cent per ordinary share for the financial year ended 31 December 2009, subject to approval by the Company's shareholders at the forthcoming annual general meeting of the Company to be held on 7 May 2010 and compliance with the Companies Law of the Cayman Islands and other relevant rules/regulations.

Subject to the approval of the aforesaid proposed final dividend, the dividend will be payable on or about 28 May 2010 to shareholders whose names appear on the register of members of the Company on 7 May 2010 and the dividend payout ratio for the year under review will be 10.9%.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 May 2010 to 7 May 2010, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for the proposed dividend, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 3 May 2010.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules (the “CG Code”) throughout the period under review, except for the following deviations:

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

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

AUDIT COMMITTEE

The Company established an audit committee on 27 November 2009 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting procedures and the internal control systems of the Group, as well as to advise and make recommendations to the Board. The audit committee comprises three independent non-executive Directors, namely, Dr. Lam Lee Kiu-yue, Alice Piera, Mr. Shu Wa Tung, Laurence and Dr. Wu Po Him, Philip. Mr. Shu Wa Tung, Laurence is the chairman of the audit committee. The audit committee has reviewed the annual results of the Group for the year under review and discussed with the management and the auditors of the Group on the accounting principles and practices adopted by the Group.

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

Hong Kong, 22 March 2010

As at the date hereof, the executive Directors are Dr. Jack Lau and Mr. Chui Shing Yip, Jeff; the non-executive Director are Prof. Tsui Chi Ying and Prof. Cheng Shu Kwan, Roger; and the independent non-executive Directors are Prof. Chu Ching Wu, Paul, Dr. Lam Lee Kiu-yue, Alice Piera, Dr. Wu Po Him, Philip and Mr. Shu Wa Tung, Laurence.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the Company’s website at www.perceptiondigital.com.