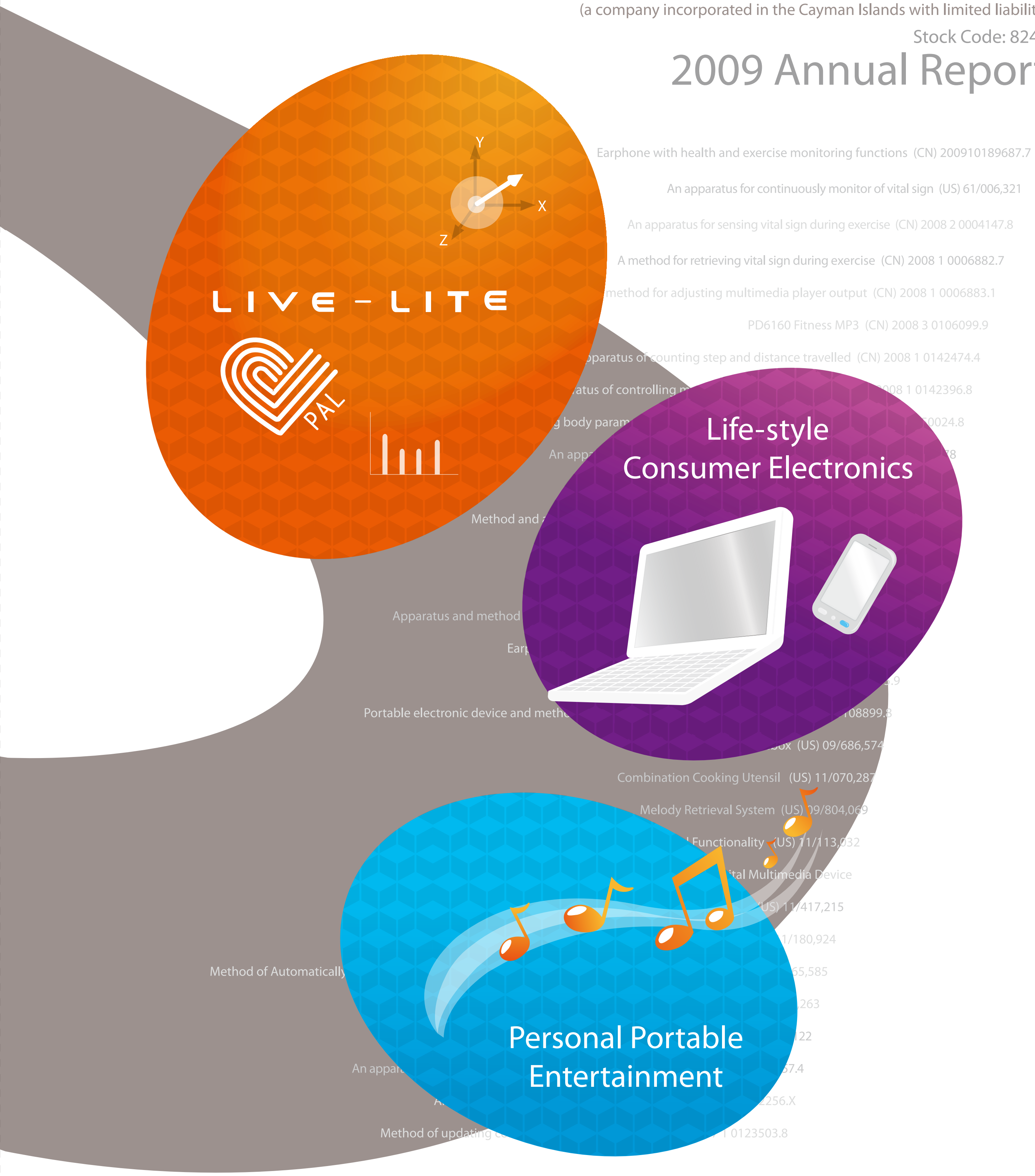
Perception Digital Holdings Limited

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

Stock Code: 8248

2009 Annual Report



www. perceptiondigital.com

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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.

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This report, for which the directors (the "Directors") of Perception Digital Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (1) the information contained in this report is accurate and complete in all material respects and is not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Corporate Information

Director

Executive Directors

Dr. Lau, Jack *(Chairman and Chief Executive Officer)*
Mr. Chui, Shing Yip Jeff

Non-executive Directors

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

Independent Non-executive Directors

Prof. Chu Ching Wu, Paul
Dr. Lam Lee, Kiu Yue Alice Piera
Dr. Wu, Po Him Philip
Mr. Shu, Wa Tung Laurence

Company Secretary

Ms. Wong, Yuk Hing Juliana *(Solicitor)*

Compliance Officer

Dr. Lau, Jack

Authorised Representatives

Dr. Lau, Jack
Ms. Wong, Yuk Hing Juliana

Audit Committee

Mr. Shu, Wa Tung Laurence *(Chairman)*
Dr. Lam Lee, Kiu Yue Alice Piera
Dr. Wu, Po Him Philip

Nomination Committee

Dr. Lam Lee, Kiu Yue Alice Piera *(Chairman)*
Dr. Wu, Po Him Philip
Mr. Shu, Wa Tung Laurence

Remuneration Committee

Dr. Wu, Po Him Philip *(Chairman)*
Dr. Lam Lee, Kiu Yue Alice Piera
Mr. Shu, Wa Tung Laurence

Hong Kong Share Registrar

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

Website

www.perceptiondigital.com

Stock Code

08248

Principal Bankers

Shanghai Commercial Bank Limited
Standard Chartered Bank (Hong Kong) Limited

Compliance Advisor

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

Auditors

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Registered Office

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

Head Office and Principal Place of Business

Flat A, 8th Floor
Shaw House
Lot 220, Clear Water Bay Road
Hong Kong

Principal Share Registrar and Transfer Office

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

Chairman's Statement

Dear Shareholders:

On behalf of the Board of Directors (the "Board") of Perception Digital Holdings Limited ("Perception Digital"), I am writing this statement here today with great excitement and humility. Last year, Perception Digital has transformed itself from a privately held company to a public one. We are cognizant of the expectation and excited about the chance not only to prove ourselves but also to show them publicly.

Perception Digital's unique factory-less design model has enabled us to work with our brand name customers to provide them with the best supply chain service experiences. Our ability to serve our customers rests on our dedicated and comprehensive engineering capabilities. Often time, we act like an external Chief Technical Officer to them, answering their needs and offering them worry-free solutions. Our business model is simple. Our customers have a product they want to see happening. We would go there and help them figure out the best electronics components, mechanical housing, PC software, and factories to fulfill their needs. With no factory of our own, we are unbiased. Yet, because we are the originator of many of the most important piece of digital signal processor based firmware, we are able to offer a "glue" amongst the various components. Not only that, our grasp of the design often time allows a change of components during the life time of the production, ensuring always the best supply chain.

The design supply chain business model that we have so pioneered is unique and has become stronger than ever as we have grown in size. And, we can further draw our customers back to us because of the state-of-the-art technologies we owned.

Perception Digital technology's value is to turn an ordinary electronics into an extraordinary one. These days, most consumers desire intelligent devices. Yet, intelligence should not mean extra complexity to the consumers. Intelligence is now synonymous to elegance and ease of use. We are aware of their needs and have dedicated ourselves to invest in research and development to meet such needs. With our more than 100 R&D engineers, we have filed 43 patents by the end of 2009, with 16 granted. In the year 2009 alone, we filed 12 patents. Our R&D effort continues to fuel our growth and won us accolades. In the year 2009, for the 3rd straight year in a row, our annual income from licensing fees exceeded HK$19.5 million. The fact that we have received some of our licensing fee from some Fortune 500 customers is a testimony to our technology uniqueness and strength.

As a technology company with numerous patents and a culture to strive for innovation, Perception Digital was recognized with our achievements in innovation and technology. In China, Perception Digital was granted the status of National High-Tech Entreprise (國家高新技術企業認定), enabling us to receive preferable tax treatment. In Hong Kong, we won the 2009 Grand Award (Winner) for Outstanding Innovation and Technology Products by the Hong Kong Electronics Industry Association ("HKEIA"), along with 3 other design and technological awards by the HKEIA and by the Hong Kong Awards of Industries. Being right in the innovation and technology industry, one of the six industries named in Chief Executive's 2009/10 Policy Address, we are well positioned to leverage the nurturing incentives from the Hong Kong SAR government. We are also set to benefit from the framework agreement to be signed between Hong Kong and Guangdong for the two regions' cooperation in a number of economic areas, including the innovative technology industry. This agreement will be in line with the Central Government's aim to enhance Hong Kong's ties with the Pearl River Delta as recently stressed by Premier Wen Jiabao at the National People's Congress.

Chairman's Statement

In terms of product platform, we made great strides in core digital signal technologies, including mobile phone communication, digital multimedia broadcast, computing, and well-being. Our Live-Lite technologies, for instance, bring in major breakthroughs in personal entertainment and well-being. Imagine a headphone which allows one to listen to music and detect heart rate at the same time. We are excited about the innovation.

While we are developing applications, we are also making great progress in the underlying operating system. Our development in the Android system has already helped us generate our first design win with a major Fortune 500 customer, and we are confident about the prospect. The ability to have in-depth know-how in both the application layer and the operating system well poises Perception Digital for the next generation of smart electronics.

At Perception Digital, I am most pleased to report to you that 2009 has been a satisfactory year to Perception Digital. Despite the difficult market environment impacted by the global financial crisis, we have achieved a revenue of HK$548.1 million, and a profit attributable to shareholders of the Company of HK$27.6 million.

We attribute the results to our factory-less design supply chain business model, our innovative design and development capabilities that attract business from value customers. As the consumer electronics market is expected to regain growth in 2010, and our customers prepare to capture the rise of consumer spending with attractive products, we see a great potential for us to reach new heights as we grow with our customers and the market.

With our strong R&D team, unique design supply chain services and continual strive for innovation, which are managed by a solid management team under the directions of the Board comprising members with years of experiences in managing large corporations, we are confident that the Group is well positioned for growth and maximization of investor return. We will always be the Consumer Electronics Dream Weaver that our customers have loved us about, and you have so kindly endorsed.

Dr. Lau, Jack
Chairman

22 March 2010

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 economic downturn, 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 with 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 2009.

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.

Management Discussion and Analysis

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 (Total bank borrowings divided by the summation of total bank borrowings and equity)	**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 HK$	2008 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 ("US$") as their functional currency, their foreign currency transactions and the units' monetary assets and liabilities denominated in foreign currencies that were retranslated at the functional currency rates of exchange ruling as at 31 December 2009 were mainly denominated in Hong Kong dollars ("HK$"). As the US$ is pegged to the 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.

Management Discussion and Analysis

Future Plans for Material Investments or Capital Assets

Save as disclosed in this annual report, there was no specific plan for material investments or capital assets as at 31 December 2009.

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 report, 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 Company's listing prospectus dated 4 December 2009 (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 report.

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.

Management Discussion and Analysis

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 digital signal processing ("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 the 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 laws of the Cayman Islands and other relevant rules and 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%.

Biographical Details of Directors and Senior Management

Executive Directors

Dr. Lau, Jack, aged 42, is one of the founders of the Group. He is as an executive Director, the Chairman and Chief Executive Officer of the Company. Dr. Lau is currently an adjunct associate professor at the Hong Kong University of Science and Technology (the "**HKUST**"). He received his Bachelor's and Master's degrees from the University of California, Berkeley in Electrical Engineering and Computer Sciences. He obtained his Ph.D. degree from HKUST in Electrical and Electronic Engineering and became the first doctoral graduate of HKUST. Afterwards, he pursued his research interest at Stanford University from 1995 to 1996 and returned to HKUST in 1996. Dr. Lau currently holds more than 10 registered patents. He has published at various leading Institute of Electrical and Electronic Engineers ("**IEEE**") journals and conferences. He was awarded the Top Ten Outstanding Young Person (十大傑出青年) by Hong Kong Junior Chamber in 2000; the Young Industrialist Award of Hong Kong (香港青年工業家獎) by the Hong Kong Young Industrialists Council in 2005; and the World Outstanding Young Chinese Entrepreneur (世界傑出青年華商) by the World Federation of Chinese Entrepreneurs Organization, and Ernst & Young Entrepreneur Of The Year China by Ernst & Young in 2009.

Mr. Chui, Shing Yip Jeff, aged 51, joined the Group in July 2007 as the director of corporate planning and was appointed as an executive director of Perception Digital Technology (BVI) Ltd. in August 2007. He was appointed as an executive Director of the Company on 18 September 2009. Prior to joining the Group, Mr. Chui worked at IBM from 1982 to 2007 in multiple disciplinary areas including software development, service delivery, sales and marketing in information technology industry. Mr. Chui was IBM's Linux business leader for Hong Kong and Asia Pacific before he joined the Group. Leveraging on his rich management experience from IBM, Mr. Chui has taken the lead in transforming the Company into a structured enterprise class company, with efficient and standardized processes. Under his leadership, the Company obtained the ISO 9001/14001 certification in 2008. Mr. Chui obtained his Bachelor's degree in Science from the University of Toronto in 1979.

Non-executive Directors

Prof. Cheng, Roger Shu Kwan, aged 45, is one of the founders of the Group. He was appointed as a non-executive Director of the Company on 18 September 2009. He is currently a professor in the Electronic and Computer Engineering Department of HKUST. He was an assistant professor in the Electrical and Computer Engineering Department of University of Colorado at Boulder from 1991 to 1995, before he joined HKUST in June 1995. Prof. Cheng received his Bachelor's degree in Science from Drexel University, Philadelphia, Pennsylvania, in 1987, and his Ph.D. degree from Princeton University, Princeton, New Jersey, in 1991, both in Electrical Engineering. Prof. Cheng is currently an editor for the IEEE Transactions and Wireless Communications. He had also served as a consultant for industrial projects sponsored by various communication system and IC companies in Hong Kong, US and China.

Biographical Details of Directors and Senior Management

Prof. Tsui, Chi Ying, aged 50, was one of the founders of the Group and appointed as an executive Director of the Company on 18 September 2009. He was re-designated as a non-executive Director on 10 March 2010. He received his Bachelor's degree in Electrical Engineering from the University of Hong Kong in 1982 and Doctorate degree in Computer Engineering from the University of Southern California in 1994. He joined the Electrical and Electronic Engineering Department of HKUST in 1994 and is currently an associate professor in the department. Prof. Tsui has received various awards including Best Paper awards from IEEE Transactions on VLSI Systems, IEEE International Symposium on Circuits and Systems and IEEE International Symposium on Low Power Electronics and Design. He has served on the technical program committees of many international conferences and symposiums, including Design Automation Conference, International Symposium on Low Power Electronics and Design, Asia and South Pacific Design Automation Conference and the IEEE, VLSI Symposium. He is the holder of 6 registered patents in the US.

Independent Non-executive Directors

Prof. Chu Ching Wu, Paul, aged 69, was appointed as an independent non-executive Director of the Company on 18 September 2009. Prof. Chu was the president of the HKUST from July 2001 to August 2009. He is also the executive director of Texas Center for Superconductivity and the T. L. L. Temple Chair of Science at the University of Houston. In 2007, he was appointed as a member of the US President's Committee on the National Medal of Science, responsible for the selection of recipients for this top scientific honor in the US. Prof. Chu had conducted industrial research at Bell Laboratories at Murray Hill, New Jersey before he held academic positions at Cleveland State University and the University of Houston. In 1990, he was selected as the Best Researcher in the US by the US News and World Report. He received his Bachelor of Science degree from Cheng-Kung University in Taiwan in 1962, a Master of Science degree from Fordham University, New York in 1965, and a Ph.D. degree from the University of California, San Diego in 1968.

Dr. Lam Lee, Kiu Yue Alice Piera, aged 70, was appointed as an independent non-executive Director of the Company on 18 September 2009. Dr. Lam has over 18 years of experience in banking and finance. She joined Hang Seng Bank Limited (stock code: 11) in 1978 and was appointed as a director in 1989, the general manager from 1990 to 1993, the managing director and deputy chief executive from 1994 to 1996. From 1999 to 2007, Dr. Lam served as the Chairman of the University Grants Committee. She was an independent non-executive Director of iMerchants Limited (stock code: 8009) from March 2000 to July 2005 and the vice-chairman of the Chinese University of Hong Kong from 1997 to 1998. She graduated from the University of Hong Kong in 1963 with a Bachelor of Arts degree. She attended the Solicitors' Professional Course and attained a Solicitors' Practising Certificate in 1978. In 1992, Dr. Lam was awarded an honorary Doctor of Laws degree by the Chinese University of Hong Kong. In 2003, Dr. Lam was honoured awarded the Gold Bauhinia Star by the Hong Kong government in recognition of her service to the Hong Kong community.

Biographical Details of Directors and Senior Management

Dr. Wu, Po Him Philip, aged 64, was appointed as an independent non-executive Director of the Company on 18 September 2009. He is currently a non-executive director of Wing Lung Bank Ltd (stock code: 3968). He joined Wing Lung Bank Ltd. in 1975 and served as an executive director since 1982 and as the chief executive from 2005 to 2008. Currently, Dr. Wu is a director of Wu Jieh Yee Company Limited and The Hong Kong Academy For Gifted Education Limited. He is currently an adjunct professor in the Faculty of Business Administration of The Chinese University of Hong Kong. Dr. Wu graduated from The University of Hong Kong with a Bachelor of Arts degree in 1968. He obtained his Master of Business Administration degree in 1970 from the California State University and his Ph.D degree in Economics in 1974 from the University of Oklahoma. In 1999, Dr. Wu was conferred an honorary degree of Doctor of Business Administration by The Open University of Hong Kong in recognition of his contribution to adult education and finance. In 2005, Dr. Wu was awarded the Bronze Bauhinia Star by the Hong Kong government in recognition of his service to the Hong Kong community.

Mr. Shu, Wa Tung Laurence, aged 37, was appointed as an independent non-executive Director of the Company on 18 September 2009. He is currently an independent non-executive Director of Greater China Holdings Limited (stock code: 431). Mr. Shu graduated from Deakin University in Australia in 1994 with a Bachelor's degree in Business majoring in Accounting. He is a Certified Public Accountant of the HKICPA and a Certified Practising Accountant of CPA Australia. He has over 13 years of experience in audit, corporate finance and corporate advisory services. He jointed Deloitte Touche Tohmatsu ("Deloitte") in 1994 and later became a manager of the Reorganization Services Group and joined Deloitte & Touche Corporate Finance Limited (a service company of Deloitte) as a manager from 2001 to 2002. From 2002 to 2005, Mr. Shu was an associate director of Goldbond Capital (Asia) Limited. From May 2005 to July 2008, he served as the chief financial officer and the company secretary of Texhong Textile Group Limited (stock code: 2678) overseeing the company's financial management function.

Senior Management

Mr. Cheng, Lap Hing, Martin, aged 41, our Assistant Director of project management, joined our Group in September 2001 as a Product Engineering Manager. He was promoted to his current position in February 2009. Prior to joining our Group, Mr. Cheng was an Engineering Design Manager from March 1999 to September 2001 at Vtech Communications Limited, responsible for production support, customer support and new product development. Prior to that, he was a Manager of R&D, responsible for setting up a research and development department in the PRC, from April 1997 to March 1999 at Surface Mount Technology International Limited, where he started his career in April 1991. Mr. Cheng graduated from the Hong Kong Polytechnic University in November 1991 with a Higher Diploma in Electronic Engineering, from the University of London in 1999 with a Bachelor of Science (Hons) degree in Computing and Information System, and from the Open University of Hong Kong in 2008 with a Bachelor of Science (Hons) degree in Electronics.

Mr. Choi, Koon Yin, Felix, aged 34, is our Assistant Director (Research and Development). Mr. Choi joined our Group in August 1999 as an engineer and he is one of the founding staff. He was responsible for software research and development. The software products include embedded device, desktop program and internal web-based system. During the past 10 years, he was the Software Architect on various projects, including some of our largest customers. He also directed the product failure analysis and worked with the team on continuous improvements. His effort was recognised and promoted to Assistant Director (Research and Development) in 2008. Mr. Choi graduated from HKUST with a Bachelor's degree in Computer Engineering in 1997. He continued his studies upon graduation in Electrical and Electronic Engineering at HKUST, and obtained his Master of Philosophy degree in 2000.

Biographical Details of Directors and Senior Management

Mr. Fung, Fuk Sheung, Edward, aged 38, our Senior Engineering Manager, joined our Group in August 2001 as a Senior Electronic Engineer. He was promoted to his current position in January 2008. Prior to joining our Group, Mr. Fung was an Engineer from February 1998 to July 2001 at Micom Tech Limited and was responsible for battery powered portable embedded system product development. Prior to that, he worked for Astec Custom Power (Hong Kong) Limited and was responsible for switch mode power supply design and approbation. Mr. Fung has over 12 years of working experience in portable low power hardware design, battery power management, product development and approbation and technical lead. Mr. Fung graduated from the Hong Kong Polytechnic University in July 1995 with a Higher Diploma in Electronic Engineering and in July 1997 with a BEng (Hons) in Electronic Engineering, and from The Chinese University of Hong Kong in 2000 with a Master of Science degree in Electronic Engineering.

Mr. Ho, Sai Hung, Francis, aged 45, is our Industrial Design Manager. Mr. Ho graduated from the Hong Kong Polytechnic University in 1989 with a Bachelor of Arts degree in Industrial Design. Mr. Ho has worked for Wah Ming Optical Manufacturing Limited as a designer from November 1989 to October 1990, and for Team Concepts Electronics Limited between April 1991 and June 1992 and was responsible for concept creation and product design. Mr. Ho served as a Free Lance Industrial Designer in Jetton Industrial Limited from June 1992 to April 1993, and had worked for Group Sense Limited during the period between May 1993 to October 1995, and from April 1996 to May 1998 was responsible for idea generation, product design and design project development. Before joining our Group in October 2004, Mr. Ho was the Design Manager of Ewig Industries Co., Ltd. between May 1999 and November 1999. Mr. Ho then joined Artek Electrical Applicances Company Limited as a Product Designer from May 2001 to March 2002. Mr. Ho has over 15 years' experience of concept creation, product design and design management in consumer electronics industry.

Mr. Kow, Ping, aged 40, is our Vice President of Strategic Accounts. After graduating with a Bachelor of Applied Science degree in Computer Technology from Nanyang Technological University (Singapore) in 1993, he has worked in various companies on both sides of the Pacific. Prior to joining our Group in July 2006 as the Vice President of Strategic Accounts, Mr. Kow was the Country Manager of Cornice Inc. supporting Cornice Inc.'s customers in China, Hong Kong and South East Asia who build consumer electronic devices with embedded hard disk drives. Before that, in March 2000, he had co-founded WebPro Limited in Hong Kong with venture funds managed by Walden Investments. Mr. Kow had earlier worked in the US for various companies such as VIA-Cyrix Corporation (which later became part of National Semicoductor Corporation) from June 1997 to January 2000, where he was the Marketing Manager responsible for the world wide marketing for x86 processors and also at the Texas Instruments Taiwan Limited from June 1993 to June 1997, where he handled strategic marketing responsible for the marketing of products such as x86 processors and wireless communications products. Given his accomplishments and work ethics, Mr. Kow was seconded to the US organisation of Texas Instruments as an expatriate, managing a variety of major business and marketing program involving the sales and marketing of 486 CPU microprocessors to the Asia market place from May 1996 to June 1997.

Mr. Lai, Sai Kit, Dennis, aged 34, is our Assistant Director of project development division. Mr. Lai graduated from the HKUST with a Bachelor's degree in Electronic Engineering in 1997, and obtained his Master of Philosophy degree in Electrical and Electronic Engineering from HKUST in 1999. Mr. Lai had worked as our Specialist of Digital Signal Processing Engineering from October 1999 to March 2003. From April 2003 to June 2004, Mr. Lai had worked as a project leader for a listed company in Japan, TEAC Audio Co. Ltd. Mr. Lai rejoined our Group as our Design Service Manager in December 2004. Mr. Lai has over 10 years of experience in technical development, technical management and project managment. Mr. Lai has assisted in the development of the US patents "Method of automatically selecting multimedia files for transfer between two storage mediums," and "Digital multimedia jukebox". Mr. Lai was awarded a Chapter Award in an IEEE conference of wireless technology, VTC2000-Spring.

Biographical Details of Directors and Senior Management

Mr. Lam, Fui Yee, aged 56, is our Financial Controller. He joined our Group in December 2007 as our Financial Controller. Before joining our Group, he was the Chief Financial Officer (China) of Grande Group (Hong Kong) Limited (Stock code: 00186). Mr. Lam had worked in several multinational companies such as Motorola Semiconductors Hong Kong Limited, PepsiCo Inc., Linx Asia Limited and Amoco Chemical Asia Pacific Limited in accounting and finance positions for over 15 years. Mr. Lam has over 25 years' experience in corporate accounting and financial management. Mr. Lam graduated from the Chinese University of Hong Kong in 1980 with a Bachelor of Business Administration degree and from the HKUST with a Master of Business Administration degree in November 1996. He has been an associate member of the HKICPA since April 1996, and a fellow member of the Association of Chartered Certified Accountants since November 2000.

Mr. Lee, Rabi, aged 36, is our Finance Director and is responsible for supervising the corporate finance exercises of our Group. He joined our Group as our Senior Manager of the Corporate Finance Department in December 2008. He graduated from City University of Hong Kong with a Bachelor's degree in Accountancy in November 1997 and has been a member of the HKICPA since January 2001. Prior to joining our Group, he worked in Ernst & Young from September 1997 to November 2008 where he acquired auditing experience in various industries, including property development, marine transportation and manufacturing. He was a Senior Manager when he left Ernst & Young in November 2008.

Mr. Leung, Yuk Hang, aged 35, was appointed as our Assistant Director in February 2009. He oversees our MRP/SAP system which facilitate our supply chain management. Prior to becoming Assistant Director, Mr. Leung was our Operation Manager who oversaw our entire mainland China operation between April 2006 and February 2008. In that role, he directed work on the significant expansion of our mainland China operation and our business process optimisation for our ISO 9001 and ISO 14001 certification. Mr. Leung served as our Project Manager before April 2006 and was responsible for compiling the project management methodology of the company. Mr. Leung graduated from HKUST in 2000 with a Master of Philosophy degree in Electrical and Electronic Engineering. He was conferred with the Project Management Professional (PMP) certification in 2005.

Mr. Ng, Kin Ping, Anvil, aged 34, is our Assistant Director. He is responsible for technical development and project management. Mr. Ng joined our Group in August 1999 as an Engineer and he is one of our founding staff. Mr. Ng started his career on system design, and focused on project management in later stage. He was promoted to Senior Project Manager in September 2006 and led the work on technical, project management. Under his leadership, our Company optimised the work flow for project mangement flow. With over 10 years of experience in project management, Mr. Ng helped our Group develop a number of new products for our major customers. His effort was recognised and was promoted to the position of Assistant Director in February 2009. Mr. Ng graduated from HKUST with a Bachelor's degree in Electronic Engineering in 1997. He continued to study at HKUST upon graduation and obtained his Master of Philosophy degree in Electrical and Electronic Engineering in 1999.

Mr. Gilad, Simhony, aged 42, has been serving as the Vice President of Sales for our Group since, September 2004. Mr. Simhony graduated from the Bar-Ilan university in Israel in 1993 with a Bachelor's degree in Law, and is a member of the Bar Association of the Israeli Bar since November 1994. Mr. Simhony founded Webdiving Ltd, a high-tech start up company, in 1998. He later worked for Comverse Technology, Inc. (NASDAQ: CMTV), which pioneered the network based voice mail and other added value services such as network based entraninment applications, from October 2001 to February 2003 as a Senior Director in charge of sales and business development for the Voice CD group. Mr. Simhony worked for M-Systems Flash Disk Pioneers Ltd. (NASDAQ: FLSH), which pioneered the USB flash drive and other flash based memory innovations, between March 2003 to October 2004 as a Vice President of sales for the SmartCaps unit. Mr. Simhony has over 12 years of experience in sales and senior management positions in the dynamic "high-tech" industry; including his tenure at the abovementioned NASDAQ listed companies.

Biographical Details of Directors and Senior Management

Mr. Tao, Hong Ming, aged 42, is our Senior Vice President and is responsible for sales and marketing, project management and operation. Mr. Tao graduated from the Hong Kong Polytechnic University in 1990 with a Bachelor's degree in Electronic Engineering. He was with our Group from July 2001 to March 2007 before he left to join Shenzhen Sangfei Consumer Communication Co., Ltd. as Director of Business Line Management in August 2007. He later rejoined our Group in June 2008, responsible for Mobile Phone business management. He previously worked as a Business Development Manager at VTech Communications Limited responsible for business development and project management of contract manufacturing business. Mr. Tao has over 18 years of working experience in engineering, sales and marketing, project management and operation in electronics business.

Mr. Wong, Siu Pang, Ben, aged 41, is our Business Development Director. Mr. Wong is responsible for exploring new market opportunities and customers for our Group. Prior to joining our Group in August 2008 as our Business Development Director, Mr. Wong had over 18 years of experience in sales and marketing in the field of electronic components and products. He worked for Toshiba Electronics Asia Ltd. as Assistant Manager between July 1990 and April 1996, and for Zilog Asia Ltd. as District Sales Manager between April 1997 and March 2001, responsible for the sales and marketing of electronic components. Mr. Wong joined Zi Corporation (H.K.) Limited as a Business Manager-Bluetooth. He was the Vice President of Sunlink International Group between March 2003 and July 2006, and was responsible for the business unit of multimedia project development and sales. Mr. Wong was then employed by Taiyo Technology (H.K.) Limited as a Vice President from September 2006 to November 2007. He obtained his Bachelor of Science degree in Electronics from the Chinese University of Hong Kong in 1990 and his Master of Science degree in Electronic Engineering from the Hong Kong Polytechnic University in 1995.

Mr. Wong, Kin Chun, Steven, aged 55, is our Operation Director. He joined our Group in October 2008 as our Senior Purchasing Manager. Mr. Wong has over 20 years of experience in manufacturing operations, business and product development and has strong implementation knowledge in logistics and supply chain management. He is experienced in developing and implementing material requirements planning ("MRP") system. Prior to joining our group, Mr. Wong worked at Binatone Electronics International Limited, a company engaged in the research, production and marketing of innovative design and manufacturing of communication devices, as the Manufacturing Director from September 1998 to August 2007. Prior to that he served as a Manager in the EDP, Materials and Strategic Business Development departments, at S. Megga Telecommunications Limited, a manufacturer of telecommunication products from April 1988 to September 1995. Mr. Wong graduated from York University in June 1986 with a bachelor's degree in arts.

Ms. Wong, Yin Mei, Venus, aged 31, our Assistant Director – Marketing, is responsible for sales and marketing activities, customer service and product development. She joined our Group in November 2005 as Project Marketing Manager. Ms. Wong has about 10 years of working experience in both technical marketing and management in the electronics industry. Before joining our Group, Ms. Wong was a marketing assistant in JD Rising Company. She was subsequently employed by Beijing Design & Creation (Hong Kong) Co. Ltd. in May 2002, responsible for technical marketing, IP licensing, design service and business development. She was the Marketing Manager when she left Beijing Design & Creation (Hong Kong) Company Limited. Ms. Wong graduated from The University of Hong Kong with a Bachelor Degree in Management Studies and from HKUST with a Master of Science in Engineering Enterprise Management.

Corporate Governance Report

Pursuant to Rule 18.44 of the GEM Listing Rules, the Board is pleased to present this corporate governance report for the year ended 31 December 2009. This report highlights the key corporate governance practices of the Company.

Corporate Governance Practices

The Company is committed to achieving high standards of corporate governance to safeguard the interests of its shareholders and enhance its corporate value. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the Code on Corporate Governance Practices in Appendix 15 to the GEM Listing Rules (the "CG Code").

Throughout the period from the date of listing of the shares of the Company on the Stock Exchange on 16 December 2009 (the "Listing Date") to 31 December 2009, the Company had complied with the code provisions in the CG Code with the exception of the code provision A.2.1. Details of such deviation will be explained below.

Board of Directors

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

The Board currently comprises two executive Directors, two non-executive Directors and four independent non-executive Directors. During the year 2009, the Board held two meetings.

Details of Directors' attendance at Board meetings held in 2009 are as follows:

	Dates of meeting	
Name	**18 September 2009**	**27 November 2009**
Executive Directors		
Dr. Lau, Jack *(Chairman)*	√	√
Mr. Chui, Shing Yip Jeff	√	√
Non-Executive Directors		
Prof. Cheng, Roger Shu Kwan	√	√
Prof. Tsui, Chi Ying*	√	√
Independent non-executive Directors		
Prof. Chu Ching Wu, Paul	X	X
Dr. Lam Lee, Kiu Yue Alice Piera	√	√
Dr. Wu, Po Him Philip	√	√
Mr. Shu, Wa Tung Laurence	√	√

* Note: Prof. Tsui, Chi Ying was re-designated from an executive Director to a non-executive Director on 10 March 2010.

Corporate Governance Report

In compliance with Rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed sufficient number of independent non-executive Directors (the "INED") with at least one of them having appropriate professional qualifications or accounting or related financial management expertise. The INEDs, together with the executive Directors, ensure that the Board prepares its financial and other mandatory reports in strict compliance with the relevant standards and that appropriate systems are in place to protect the interests of the Company and its shareholders. The Board has received an annual confirmation of independence from each of the INEDs and believes that their independence is in compliance the GEM Listing Rules as at the date of this report.

The term of appointment of each non-executive Director is for a period of three years, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

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

Chairman and Chief Executive Officer

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

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

Securities Transactions by Directors

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "Required Standards of Dealings"). The Company has confirmed, having made specific enquiry of the Directors, all the Directors have complied with the Required Standards of Dealings throughout the period from the Listing Date to the date of this report.

Committees

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

Remuneration Committee

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

The primary duties of the remuneration committee are formulating remuneration policies, determining the specific remuneration packages of executive Directors and senior management and making recommendations to the Board on the remuneration of non-executive Directors.

Due to the short period of time between the Listing Date and the end of the reporting period, the Remuneration Committee did not hold any meeting during the year 2009.

Nomination Committee

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

The primary duties of the nomination committee are reviewing the structure, size and composition of the Board, formulating relevant procedures for nomination of directors, identifying qualified individuals to become members of the Board and making recommendation to the Board on the appointment or re-appointment of directors.

Due to the short period of time between the Listing Date and the end of the reporting period, the Nomination Committee did not hold any meeting during the year 2009.

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 audit committee comprises three INEDs, namely, Dr. Lam Lee, Kiu Yue Alice Piera, Mr. Shu, Wa Tung Laurence and Dr. Wu, Po Him Philip. The committee is chaired by Mr. Shu, Wa Tung Laurence. The audited results of the Company for the year ended 31 December 2009 have been reviewed by the audit committee members who have provided advice and comments thereon.

The primary duties of the audit committee are to supervise the internal control policies, the financial reporting systems and procedures of the Company, to review the financial statements and reports of the Group, and to review the terms of engagement and scope of audit work of the external auditors.

Due to the short period of time between the Listing Date and the end of the reporting period, the Audit Committee did not hold any meeting during the year 2009.

Corporate Governance Report

Directors' Responsibility in Respect of the Financial Statements

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

External Auditors and their Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2009 is set out in the section "Independent Auditors' Report" of this report.

During the year, remuneration paid and payable to the external auditors of the Group are approximately HK$1.2 million for audit services and HK$0.4 million for non-audit services, respectively.

Internal Control

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

The audit committee reviewed the overall effectiveness of the internal control system and reported its findings and made recommendations to the Board. The Directors have conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2009. The Board will continue to assess the effectiveness of internal controls by considering reviews performed by the audit committee and executive management.

Investor Relations

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

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

Report of the Directors

The directors of the Company (the "Directors") present their first report and the audited financial statements of the Company for the period from 11 September 2009 (date of incorporation) to 31 December 2009 and the Group for the year ended 31 December 2009.

Change of company name

Pursuant to a special resolution on 17 September 2009, the name of the Company was changed from Perception Digital Holdings Ltd. to Perception Digital Holdings Limited 幻音數碼控股有限公司.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements.

Results and dividends

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 92.

The Directors recommend the payment of a final dividend of HK0.5 cents per ordinary share for the financial years ended 31 December 2009 to shareholders whose names appear on the register of members on 7 May 2010.

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.

Use of proceeds from the Company's initial public offering

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 December 2009, after deduction of related issuance expenses, amounted to approximately HK$81.8 million. Approximately HK$32.8 million of the proceeds from the Company's initial public offering was used for the repayment of bank borrowings during the year ended 31 December 2009 in accordance with the proposed applications set out in the Prospectus. The unused proceeds amounted to approximately HK$49.0 million as at 31 December 2009 had been placed with the commercial banks in Hong Kong. The Directors believe that the remaining net proceeds will be used according to the intended usages as set out in the Prospectus.

Report of the Directors

Summary financial information

A summary of the published results, assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 93. This summary does not form part of the audited financial statements.

Property, plant and equipment

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

Share capital

Details of movements in the Company's share capital during the year are set out in note 29 to the financial statements.

Pre-emptive rights

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

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.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2009, the Company's reserves, calculated in accordance with the provisions of Cayman Islands' legislation, amounted to HK$39.1 million.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 94.0% of the total sales for the year and sales to the largest customer included therein amounted to 84.4%. Purchases from the Group's five largest suppliers accounted for 83.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to 41.8%.

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

Directors

The directors of the Company during the year were:

Executive Directors:

Dr. Lau, Jack	(appointed on 11 September 2009)
Mr. Chui, Shing Yip Jeff	(appointed on 18 September 2009)

Non-executive Directors:

Prof. Cheng, Roger Shu Kwan	(appointed on 18 September 2009)
Prof. Tsui, Chi Ying	(appointed on 18 September 2009, re-designated from an executive Director to a non-executive Director on 10 March 2010)

Independent Non-executive Directors:

Prof. Chu Ching Wu, Paul	(appointed on 18 September 2009)
Dr. Lam Lee, Kiu Yue Alice Piera	(appointed on 18 September 2009)
Dr. Wu, Po Him Philip	(appointed on 18 September 2009)
Mr. Shu, Wa Tung Laurence	(appointed on 18 September 2009)

In accordance with articles 83 and 84 of the Company's articles of association, all the Directors will retire from office and, being eligible, will offer themselves for re-election, at the forthcoming annual general meeting of the Company.

Confirmation of Independence

The Company has received annual confirmations of independence from Prof. Chu Ching Wu, Paul, Dr. Lam Lee, Kiu Yue Alice Piera, Dr. Wu, Po Him Philip and Mr. Shu, Wa Tung Laurence pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules"). The Company considers the independent non-executive Directors to be independent pursuant to Rule 5.09 of the GEM Listing Rules as at the date of this report.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 17 of the annual report. Directors' positions held with the subsidiaries of the Company are as follows:

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

Report of the Directors

Directors' service contracts

The service contracts between the Company and each of the Directors are for a term of three years which commenced on 16 December 2009 and are subject to renewal by agreement for one or more consecutive terms of three years. Their terms of office are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

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

Directors' interests in contracts

Save as disclosed in note 34 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

Competing interest

For the year ended 31 December 2009, the Directors were not aware of any business or interest of the Directors, the controlling shareholder, the management shareholder and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

Group's emolument policy

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

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

Details of the emoluments of the Directors and five highest paid individuals pursuant to Rules 18.28 to 18.30 of the GEM Listing Rules are set out in notes 8 and 9 to the financial statements, respectively.

Contract of significance

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

Directors' interests and short positions in shares and underlying shares

At 31 December 2009, the interests and short positions of the Directors and chief executive of the Company in the ordinary shares (the "Shares"), underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in the Shares:

Name of Director	Notes	Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Dr. Lau	(a)	Interest of spouse	179,421,037	29.90%
Mr. Chui, Shing Yip Jeff ("Mr. Chui")	(b)	Interest in a controlled corporation	16,666,540	2.78%
Prof. Cheng	(c)	Interest in a controlled corporation	2,976,655	0.50%
Prof. Tsui	(d)	Interest in a controlled corporation	11,903,210	1.98%
Dr. Wu, Po Him, Philip ("Dr. Wu")		Beneficial owner	1,599,142	0.27%
			212,566,584	35.43%

Notes:

(a) Of the 179,421,037 Shares, 53,828,697 Shares are held by Masteray Limited ("Masteray") and 125,592,340 Shares are held by Swanland Management Limited ("Swanland"). Dr. Lau is deemed to be interested in the Shares held by Masteray and Swanland by virtue of these two companies are being controlled by Ms. Loh, Jiah Yee Katherine ("Ms. Loh"), the spouse of Dr. Lau.

(b) The 16,666,540 Shares are held by Glory Wood Limited ("Glory Wood"), which is wholly-owned by Mr. Chui. Hence, Mr. Chui is deemed to be interested in the Shares held by Glory Wood by virtue of Glory Wood being controlled by Mr. Chui.

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

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

Report of the Directors

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executive of the Company or their respective associates had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Directors' rights to acquire Shares or debentures

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Share option scheme

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

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

The total number of securities available for issue under the Scheme shall not exceed 60,000,000 Shares, being 10% of total issued Shares as at the date of listing and representing approximately 9.63% of the total issued share capital of the Company as at the date of the annual report.

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

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

The Scheme shall be valid and effective for a period of ten years commencing on the adoption date on 27 November 2009. As at 31 December 2009, no Options have been granted by the Company pursuant to the Scheme since its adoption.

Substantial shareholders' interests and short positions in shares and underlying shares

As at 31 December 2009, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	Notes	**Capacity/nature of interest**	**Number of Shares held**	**Percentage of the Company's issued share capital**
Swanland		Beneficial owner	125,592,340	20.93%
Masteray		Beneficial owner	53,828,697	8.97%
	(a)	Interest in a controlled corporation	125,592,340	20.93%
Ms. Loh	(b)	Interest in a controlled corporation	179,421,037	29.90%
UGH Investment Holding Limited ("UGH")		Beneficial owner	140,482,433	23.41%
Leung, Yee Li Lana ("Ms. Leung")	(c)	Interest in a controlled corporation	140,482,433	23.41%
Heung, Lap Chi Eugene ("Mr. Heung")	(d)	Interest of spouse	140,482,433	23.41%
Notable Success Investments Limited ("Notable Success")	(e)	Beneficial owner	54,196,943	9.03%
Successful Link Limited ("Successful Link")	(e)	Interest in a controlled corporation	54,196,943	9.03%
Paulo Lam ("Mr. Lam")		Interest in a controlled corporation	54,196,943	9.03%

Notes:

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

(b) Ms. Loh is the sole beneficial owner of Masteray and hence is deemed to be interested in all the Shares held by Masteray.

(c) Ms. Leung is the sole beneficial owner of UGH and hence is deemed to be interested in all the Shares held by UGH by virtue of the SFO.

(d) Mr. Heung is the spouse of Ms. Leung and is therefore deemed to be interested in all the Shares held by Ms. Leung by virtue of the SFO.

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

Save as disclosed above, as at 31 December 2009, no person, other than the Directors, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying Shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Report of the Directors

Interests of the compliance advisor

Quam Securities Company Limited, the lead manager of the Company's initial public offering of its shares on the Stock Exchange (the "IPO") and an associate of the Company's compliance advisor, Quam Capital Limited ("Quam"), borrowed 22,500,000 shares of the Company from Swanland pursuant to a stock borrowing agreement dated 3 December 2009 and was granted an over-allotment option by the Company to subscribe for up to 22,500,000 shares of the Company for the purpose of covering over-allocations in the placing in relation to the IPO. As at 31 December 2009, Quam Securities Company Limited has not exercised the over-allotment option. Quam Securities Company Limited exercised in full the over-allotment option on 8 January 2010 and returned in full to Swanland of the 22,500,000 shares of the Company so borrowed. Save as disclosed above, as at 31 December 2009, as notified by Quam, neither Quam nor any of its directors, employees or associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company.

Pursuant to the compliance advisory agreement dated 30 November 2009 entered into between Quam and the Company, Quam had received and will receive fees for acting as the compliance advisor of the Company.

Corporate governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 18 to 21 of the annual report.

Sufficiency of public float

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

Events after the reporting period

On 8 January 2010, the Company announced that 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.

Auditors

The financial statements for the year ended 31 December 2009 have been audited by Ernst & Young, the first auditors of the Company. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Dr. Lau, Jack
Chairman

Hong Kong, 22 March 2010

Independent Auditors' Report

安 永

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

We have audited the financial statements of Perception Digital Holdings Limited set out on pages 32 to 92, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements 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.

Auditors' responsibility

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

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

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

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

Independent Auditors' Report

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

22 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 HK$	2008 HK$
REVENUE	5	**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)	10	**234,335**	(4,520,419)
PROFIT FOR THE YEAR		**27,626,404**	8,162,680
Attributable to:			
Owners of the parent	11	**27,626,404**	8,162,680
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted		**HK 6.1 cents**	HK 1.8 cents

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 HK$	2008 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	14	**4,848,927**	6,200,885
Deferred development costs	15	**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	28	**211,842**	1,477,969
Total non-current assets		**12,972,985**	10,538,783
CURRENT ASSETS			
Inventories	18	**9,897,959**	9,168,561
Trade and bills receivables	19	**333,640,342**	195,167,739
Prepayments, deposits and other receivables	20	**10,276,488**	5,332,801
Due from a director	21	**—**	11,511,364
Pledged deposit	22	**856,650**	796,676
Cash and bank balances	22	**63,056,902**	9,356,415
Total current assets		**417,728,341**	231,333,556
CURRENT LIABILITIES			
Trade payables	23	**293,073,215**	153,016,365
Other payables and accruals	24	**13,133,712**	17,533,916
Loans from related parties	25	**—**	27,615,397
Interest-bearing bank borrowings	26	**35,442,757**	76,520,073
Tax payable		**557,502**	2,393,461
Provision	27	**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	25	**—**	525,620
Interest-bearing bank borrowing	26	**4,824,819**	—
Deferred tax liabilities	28	**53,057**	—
Total non-current liabilities		**4,877,876**	525,620
Net assets/(liabilities)		**82,252,901**	(35,933,704)

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$	2008 HK$
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**60,000,000**	—
Reserves	30	**22,252,901**	(35,933,704)
Total equity		**82,252,901**	(35,933,704)

Jack Lau
Director

Tsui, Chi Ying
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Notes	Issued capital HK$	Share premium account HK$	Capital reserve HK$ (note 30)	Exchange fluctuation reserve HK$	Accumulated losses HK$	Total equity HK$
At 1 January 2008		–	–	50,002,346	(117,338)	(94,867,394)	(44,982,386)
Total comprehensive income for the year		–	–	–	886,002	8,162,680	9,048,682
At 31 December 2008 and at 1 January 2009		–	–	50,002,346	768,664	(86,704,714)	(35,933,704)
Total comprehensive income for the year		**–**	**–**	**–**	**456,507**	**27,626,404**	**28,082,911**
Issue of new shares upon incorporation and pursuant to a group reorganisation	29(a), (c)	**13,198**	**–**	**–**	**–**	**–**	**13,198**
Issue of new shares in connection with a placing and public offer	29(d)	**15,000,000**	**93,000,000**	**–**	**–**	**–**	**108,000,000**
Capitalisation of share premium pursuant to a capitalisation issue	29(e)	**44,986,802**	**(44,986,802)**	**–**	**–**	**–**	**–**
Share issue costs		**–**	**(17,955,434)**	**–**	**–**	**–**	**(17,955,434)**
Waiver of amounts due to related parties		**–**	**–**	**45,930**	**–**	**–**	**45,930**
At 31 December 2009		**60,000,000**	**30,057,764***	**50,048,276***	**1,225,171***	**(59,078,310)***	**82,252,901**

* These reserve accounts comprise the consolidated reserves of HK$22,252,901 (2008: negative reserves of HK$35,933,704) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$	2008 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**27,392,069**	12,683,099
Adjustments for:			
Finance costs	6	**3,882,964**	4,821,828
Interest income	5	**(14,548)**	(178,463)
Depreciation	7	**2,907,774**	2,822,235
Amortisation	7	**2,781,578**	—
Impairment of items of property, plant and equipment	7	**503,974**	1,561,331
Loss on disposal of items of property, plant and equipment, net	7	**12,861**	88,752
Impairment of trade receivables	7	**36,436**	369,461
Write-back of provision for impairment of trade receivables	7	**(83,805)**	(266,033)
Impairment of available-for-sale investment	7	**—**	510,200
Impairment of an other financial asset	7	**—**	2,340,000
Write-down of inventories to net realisable value	7	**808,772**	7,133,992
		38,228,075	31,886,402
Increase in deferred development costs		**(8,180,402)**	(2,288,775)
Decrease/(increase) in rental deposits		**571,154**	(188,555)
Increase in inventories		**(1,538,170)**	(12,949,709)
Decrease/(increase) in trade and bills receivables		**(138,122,562)**	46,843,326
Increase in prepayments, deposits and other receivables		**(4,922,105)**	(2,659,895)
Increase/(decrease) in trade payables		**140,056,850**	(18,319,603)
Decrease in other payables and accruals		**(12,544,925)**	(4,578,145)
Decrease in balance with a director		**—**	(8,753,509)
Increase in provision		**1,162,152**	99,923
Cash generated from operations		**14,710,067**	29,091,460
Hong Kong profits tax paid		**(282,440)**	(8,750)
Net cash flows from operating activities		**14,427,627**	29,082,710

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$	2008 HK$
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits for purchase of items of property, plant and equipment		**(221,119)**	—
Purchases of items of property, plant and equipment		**(2,141,218)**	(6,102,691)
Proceeds from disposal of items of property, plant and equipment		**72,914**	328,138
Purchase of an other financial asset		**—**	(2,340,000)
Increase in a pledged deposit		**(59,974)**	(20,945)
Interest received		**14,548**	178,463
Decrease/(increase) in amount due from a director		**11,511,364**	(11,511,364)
Net cash flows from/(used in) investing activities		**9,176,515**	(19,468,399)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**108,000,000**	—
Share issue costs		**(17,955,434)**	—
Increase in loan from a related party		**6,000,000**	8,000,000
Repayment of loans from related parties		**(25,359,845)**	(6,550,000)
Repayment of loan from a shareholder		**(525,620)**	—
New bank loans		**304,513,921**	285,362,982
Repayment of bank loans		**(336,065,227)**	(309,785,892)
Interest and bank charges paid		**(3,882,964)**	(4,821,828)
Net cash flows from/(used in) financing activities		**34,724,831**	(27,794,738)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**58,328,973**	(18,180,427)
Cash and cash equivalents at beginning of year		**4,655,224**	22,366,078
Effect of foreign exchange rate changes, net		**72,705**	469,573
CASH AND CASH EQUIVALENTS AT END OF YEAR		**63,056,902**	4,655,224
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**63,056,902**	9,356,415
Bank overdrafts	26	**—**	(4,701,191)
		63,056,902	4,655,224

Statement of Financial Position

31 December 2009

	Notes	2009 HK$
NON-CURRENT ASSETS		
Interests in subsidiaries	16	61,226,749
CURRENT ASSETS		
Other receivable	20	7,024,720
Cash and bank balances	22	36,817,197
Total current assets		43,841,917
CURRENT LIABILITIES		
Other payables and accruals	24	5,972,787
NET CURRENT ASSETS		37,869,130
Net assets		99,095,879
EQUITY		
Issued capital	29	60,000,000
Reserves	30(b)	39,095,879
Total equity		99,095,879

Jack Lau
Director

Tsui, Chi Ying
Director

Notes to Financial Statements

31 December 2009

1.1 Corporate Information

Perception Digital Holdings Limited (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, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

2.1 Basis of Preparation

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

Notes to Financial Statements

31 December 2009

2.1 Basis of Preparation (continued)

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.

2.2 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 (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]

2.2 Issued but not yet Effective Hong Kong Financial Reporting Standards (continued)

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 stale whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.3 Summary of Significant Accounting Policies

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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

Notes to Financial Statements

31 December 2009

2.3 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets other than goodwill (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset 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/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets which specific useful lives and depreciation.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

2.3 Summary of Significant Accounting Policies (continued)

Operating leases

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

Intangible assets (other than goodwill)

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

Research and development costs

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

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within 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. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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2.3 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Initial recognition and measurement *(continued)*

The Group's financial assets include trade and bills receivables, cash and bank balances, a pledged deposit, rental deposits, financial assets included in prepayments, deposits and other receivables, and an amount due from a director.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement.

2.3 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognised in the income statement in accordance with the policies set out for "Revenue recognition" below.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.3 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

2.3 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred 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, 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.

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2.3 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investment is impaired.

If an available-for-sale assets is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2.3 Summary of Significant Accounting Policies (continued)

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, loans from related parties and a shareholder, and interest-bearing bank borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Notes to Financial Statements

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2.3 Summary of Significant Accounting Policies (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Inventories

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

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

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

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

2.3 Summary of Significant Accounting Policies (continued)

Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, 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 utilised.

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

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

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

Deferred revenue and deferred cost of revenue

Deferred revenue represents contractual billings/amounts due from customers in excess of recognised 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.

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2.3 Summary of Significant Accounting Policies (continued)

Revenue recognition

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

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

(b) from the rendering of services 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 exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Paid leave carried forward

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

2.3 Summary of Significant Accounting Policies (continued)

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences 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 the 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 end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of such an entity, the component of other comprehensive income relating to that particular entity is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the 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 these entities are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Dividend

Final dividend proposed by the directors after the end of the reporting period is not recognised as a liability at the end of the reporting period. When the dividend has been approved by the shareholders and declared in a general meeting, it is recognised as a liability.

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;

(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.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities now comprising the Group, judgement is required to determine and consider the currency that mainly influences sales prices of goods and services and of the country/jurisdiction whose competitive forces and regulations mainly determines the sales prices of goods and services; the currency that mainly influences labour, materials and other costs of providing goods or services; the currency in which funds from financing activities are generated; and the currency in which receipts from operating activities are usually retained. The functional 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 capitalised and deferred in accordance with the accounting policy as set out in note 2.3 to the financial statements. Initial capitalisation of costs is based on management's judgement that the Group can demonstrate the technological and economical feasibility of completing the intangible asset so that it will be available for use or sale, usually when a product development project has reached a defined milestone according to an established project management model.

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.

3. Significant Accounting Judgements and Estimates (continued)

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, inter alia, 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 (other than goodwill)

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

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 recognised in the income statement.

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3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Net realisable value of inventories

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

Deferred tax assets

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

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs as set out in note 2.3 to the financial statements. Determining the amounts to be capitalised requires management to make significant assumptions and estimates regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Useful lives of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over the 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 the over 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.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Useful lives of deferred development costs

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

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.

Provision for warranties

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

4. Operating Segment Information

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

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4. Operating Segment Information (continued)

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 HK$	United States of America HK$	Mainland China HK$	Hong Kong HK$	Others HK$	Total 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.

Information about major customers

Revenues of HK$462,799,780 and HK$458,190,724 were derived from transactions with a single customer during the current and prior years, which amounted to 10 per cent or more of the Group's total revenue for the years ended 31 December 2009 and 31 December 2008, respectively. Revenue of HK$58,804,519 was derived from transactions with another customer during the prior year, which amounted to 10 per cent or more of the Group's total revenue during that year.

5. 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 year.

An analysis of revenue and other income is as follows:

	2009 HK$	2008 HK$
Revenue		
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
Other income		
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

An analysis of finance costs is as follows:

	2009 HK$	2008 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

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7. Profit Before Tax

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

	Notes	2009 HK$	2008 HK$
Cost of inventories sold and services rendered		**461,530,840**	460,446,469
Depreciation	14	**2,907,774**	2,822,235
Research and development costs:			
Deferred expenditure amortised^	15	**2,781,578**	—
Current year expenditure		**15,629,989**	26,273,609
		18,411,567	26,273,609
Minimum lease payments under operating leases:			
Land and buildings		**2,496,852**	3,437,456
Office equipment		**94,367**	90,848
		2,591,219	3,528,304
Auditors' remuneration		**1,150,000**	985,000
Employee benefit expense (including directors' remuneration (note 8)):			
Wages, salaries, allowances, bonuses and benefits in kind		**42,474,956**	45,570,259
Pension scheme contributions (defined contribution scheme)		**813,180**	768,796
		43,288,136	46,339,055
Foreign exchange differences, net		**(35,906)**	1,318,067
Impairment of items of property, plant and equipment*		**503,974**	1,561,331
Impairment of trade receivables	19	**36,436**	369,461
Write-back of provision for impairment of trade receivables	19	**(83,805)**	(266,033)
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	27	**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 enhancements over such asset.

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009 HK$	2008 HK$
Fees	**95,000**	165,000
Other emoluments:		
Salaries, allowances, bonuses and benefits in kind	**2,440,833**	1,852,078
Pension scheme contributions (defined contribution scheme)	**24,000**	24,000
	2,559,833	2,041,078

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8. Directors' Remuneration (continued)

(a) Independent non-executive directors

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

	2009 HK$	2008 HK$
Prof. Chu Ching Wu, Paul	15,000	–
Dr. Lam Lee, Kiu-yue, Alice Piera	15,000	–
Dr. Wu, Po Him, Philip	15,000	–
Mr. Shu, Wa Tung, Laurence	15,000	–
	60,000	–

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(b) Executive directors and non-executive director

	Fees HK$	Salaries, allowances, bonuses and benefits in kind HK$	Pension scheme contributions HK$	Total remuneration HK$
2009				
Executive directors:				
Dr. Jack Lau	–	1,541,433	12,000	1,553,433
Prof. Tsui, Chi Ying	20,000	–	–	20,000
Mr. Chui, Shing Yip	–	899,400	12,000	911,400
	20,000	2,440,833	24,000	2,484,833
Non-executive director:				
Prof. Cheng, Roger Shu Kwan	15,000	–	–	15,000

8. Directors' Remuneration (continued)

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

	Fees HK$	Salaries, allowances, bonuses and benefits in kind HK$	Pension scheme contributions HK$	Total remuneration HK$
2008				
Executive directors:				
Dr. Jack Lau	—	840,258	12,000	852,258
Prof. Tsui, Chi Ying	165,000	—	—	165,000
Mr. Chui, Shing Yip	—	1,011,820	12,000	1,023,820
	165,000	1,852,078	24,000	2,041,078
Non-executive director:				
Prof. Cheng, Roger Shu Kwan	—	—	—	—

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included two (2008: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2008: four) non-director, highest paid employees for the year are as follows:

	2009 HK$	2008 HK$
Salaries, allowances and bonuses	**3,461,145**	5,422,464
Pension scheme contributions (defined contribution scheme)	**24,000**	36,000
	3,485,145	5,458,464

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9. Five Highest Paid Employees (continued)

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

	2009	2008
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**—**	2
	3	4

10. 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 HK$	2008 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 (note 28)	**1,319,184**	3,681,838
Total tax charge/(credit) for the year	**(234,335)**	4,520,419

10. Income Tax (continued)

A reconciliation of the tax expense applicable to profit before tax at 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:

	2009 HK$	2008 HK$
Profit before tax	**27,392,069**	12,683,099
Hong Kong statutory tax rate	**16.5%**	16.5%
Tax at the Hong Kong statutory tax rate	**4,519,691**	2,092,711
Effect on opening deferred tax of decrease in rate	**–**	287,413
Effect of difference in tax rate/tax rule for specific jurisdiction or enacted by local tax authority	**91,685**	356,410
Adjustment in respect of current tax of prior periods	**(1,553,519)**	284,419
Adjustment in respect of deferred tax of prior periods	**(4,084,902)**	771,280
Income not subject to tax	**(43,973)**	(85,628)
Expenses not deductible for tax	**872,207**	731,766
Others	**(35,524)**	82,048
Tax charge/(credit) at the Group's effective tax rate	**(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.

11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a loss of HK$1,139,124 (2008: Nil) which has been dealt with in the financial statements of the Company (note 30(b)).

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12. Dividend

	2009 HK$	2008 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.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings per share is based on:

	2009 HK$	2008 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 issues during those years.

14. Property, Plant and Equipment

Group

	Furniture, fixtures and office equipment HK$	Machinery and equipment HK$	Leasehold improvements HK$	Toolings HK$	Motor vehicles HK$	Total HK$
31 December 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	3,757,166	985,707	236,930	1,221,082	–	6,200,885
At 1 January 2009, net of accumulated depreciation and impairment	3,757,166	985,707	236,930	1,221,082	–	6,200,885
Additions	402,728	–	–	1,595,483	143,007	2,141,218
Depreciation provided during the year	(1,566,629)	(348,338)	(101,755)	(870,198)	(20,854)	(2,907,774)
Impairment	–	–	–	(503,974)	–	(503,974)
Disposals	(43,934)	–	(41,841)	–	–	(85,775)
Exchange realignment	3,934	–	187	–	226	4,347
At 31 December 2009, net of accumulated depreciation and impairment	2,553,265	637,369	93,521	1,442,393	122,379	4,848,927
At 31 December 2009:						
Cost	9,504,517	1,643,104	675,600	16,246,485	143,272	28,212,978
Accumulated depreciation and impairment	(6,951,252)	(1,005,735)	(582,079)	(14,804,092)	(20,893)	(23,364,051)
Net carrying amount	2,553,265	637,369	93,521	1,442,393	122,379	4,848,927

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14. Property, Plant and Equipment (continued)

Group

	Furniture, fixtures and office equipment HK$	Machinery and equipment HK$	Leasehold improvements HK$	Toolings HK$	Motor vehicles HK$	Total HK$
31 December 2008						
At 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	3,363,535	442,388	264,345	525,128	27,380	4,622,776
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	3,757,166	985,707	236,930	1,221,082	–	6,200,885
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	3,757,166	985,707	236,930	1,221,082	–	6,200,885

During the year ended 31 December 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$503,974 (2008: HK$1,561,331) 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.

15. Deferred Development Costs

	Group	
	2009	2008
	HK$	HK$
Cost at 1 January, net of accumulated amortisation and impairment	**2,288,775**	—
Additions — internal development	**8,180,402**	2,288,775
Amortisation provided during the year	**(2,781,578)**	—
Exchange realignment	**3,498**	—
At 31 December	**7,691,097**	2,288,775
At 31 December:		
Cost	**21,551,381**	13,366,135
Accumulated amortisation and impairment	**(13,860,284)**	(11,077,360)
Net carrying amount	**7,691,097**	2,288,775

16. Interests in Subsidiaries

	Company
	2009
	HK$
Unlisted shares, at cost	10,144,507
Due from subsidiaries	51,082,242
	61,226,749

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

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16. Interests in Subsidiaries (continued)

Particulars of the subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Perception Digital BVI	British Virgin Islands/ Hong Kong	US$13,197.70	100	–	Investment holding
Perception Digital Limited	Hong Kong	HK$67,690	–	100	Research, design and development, and provision of digital signal processing platform and embedded firmware, and provision of turnkey solutions
PD Trading (Hong Kong) Limited	Hong Kong	HK$2	–	100	Trading of consumer electronic devices and components
IWC Digital Limited	Hong Kong	HK$2	–	100	Inactive
幻音科技(深圳)有限公司*	PRC/ Mainland China	HK$8,000,000	–	100	Research and development, 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 and its statutory financial statements are not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

17. Available-for-Sale Investment

	Group 2009 HK$	2008 HK$
Unlisted equity investment, at cost	**510,200**	510,200
Impairment	**(510,200)**	(510,200)
	–	–

As at the end of the reporting period, 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 recognised 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.

18. Inventories

	Group 2009 HK$	2008 HK$
Raw materials and components	**9,835,973**	9,070,858
Finished goods	**61,986**	97,703
	9,897,959	9,168,561

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19. Trade and Bills Receivables

	Group 2009 HK$	Group 2008 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.

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

	Group 2009 HK$	Group 2008 HK$
Current	**317,061,244**	147,987,737
Less than 31 days	**12,849,858**	36,146,467
31 to 60 days	**398,882**	6,285,770
61 to 90 days	**2,568,088**	1,176,739
Over 90 days	**762,270**	3,571,026
	333,640,342	195,167,739

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

	Group 2009 HK$	Group 2008 HK$
At 1 January	**1,953,683**	2,206,410
Impairment losses recognised (note 7)	**36,436**	369,461
Amount written off as uncollectible	**(860,152)**	(356,155)
Impairment losses reversed (note 7)	**(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.

19. Trade and Bills Receivables (continued)

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

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 is an amount of HK$7,688,000 (2008: HK$11,340,661), which represents discounted bills with recourse (note 26).

20. Prepayments, Deposits and Other Receivables

	Group		Company
	2009	2008	**2009**
	HK$	HK$	**HK$**
Prepayments	**972,702**	1,537,115	**—**
Deposits and other receivables	**9,303,786**	2,215,274	**7,024,720**
Deferred cost of revenue	**—**	1,580,412	**—**
	10,276,488	5,332,801	**7,024,720**

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.

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21. Due from a Director

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

	At end of year HK$	Maximum amount of outstanding during the year HK$	At beginning of year HK$
Year ended 31 December 2009	—	15,000,000	11,511,364
Year ended 31 December 2008	11,511,364	12,000,000	—

The amount due from a director, Dr. Jack Lau, at 31 December 2008 was are unsecured, interest-free and had no fixed terms of repayment.

22. Cash and Bank Balances and Pledged Deposit

	Group		Company
	2009 HK$	2008 HK$	**2009 HK$**
Cash at banks and on hand	**63,056,902**	9,356,415	**36,817,197**
Pledged deposit	**856,650**	796,676	**—**
	63,913,552	10,153,091	**36,817,197**
Less: Pledged deposit for a licensing arrangement	**(856,650)**	(796,676)	**—**
Cash and bank balances	**63,056,902**	9,356,415	**36,817,197**

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$892,316 (2008: HK$1,731,064). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks and a 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.

23. 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.

24. Other Payables and Accruals

	Group		Company
	2009	2008	**2009**
	HK$	HK$	**HK$**
Other payables	**10,175,757**	8,135,693	**5,972,787**
Accrued interest on loans from related parties and a shareholder	**–**	3,384,456	**–**
Other accruals	**2,957,955**	3,953,428	**–**
Deferred revenue	**–**	2,060,339	**–**
	13,133,712	17,533,916	**5,972,787**

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

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25. Loans From Related Parties and a Shareholder

The loans from related parties at 31 December 2008 represented loans from Jack Lau Limited, a company controlled by a beneficial shareholder of the Company who is the spouse of Dr. Jack Lau, of HK$16,751,397 and Mr. Heung, Lap Chi Eugene, the spouse of a beneficial shareholder of the Company, of HK$10,864,000. The loans from the related parties were unsecured, interest-free and had no fixed terms of repayment.

The loan from a shareholder, Mr. Philip Wu, at 31 December 2008 was unsecured, interest-free and was not repayable within twelve months from the end of that reporting period. The balance was fully settled during the current year.

26. Interest-bearing Bank Borrowings

	2009			2008		
	Effective Interest rate	**Maturity**	**HK$**	Effective interest rate	Maturity	HK$
Group						
Current						
Bank overdrafts — secured	**–**	**–**	**–**	5.58%	On demand	4,701,191
Bank loans — secured	**3.31% to 5.74%**	**2010**	**34,356,749**	5.00% to 6.59%	2009	71,818,882
Current portion of a long term bank loan — secured	**5.25%**	**2010**	**1,086,008**	–	–	–
			35,442,757			76,520,073
Non-current						
Bank loan — secured	**5.25%**	**2011 - 2014**	**4,824,819**	–	–	–
			40,267,576			76,520,073

26. Interest-bearing Bank Borrowings (continued)

	2009 HK$	2008 HK$
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**35,442,757**	76,520,073
In the second year	**1,140,605**	—
In the third to fifth years, inclusive	**3,684,214**	—
	40,267,576	76,520,073

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

	2009 HK$	2008 HK$
Short term bank loans, secured by bills receivable (note 19)	**7,688,000**	11,340,661

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

(i) mortgages over certain properties situated in Hong Kong owned by Jack Lau Limited;

(ii) the pledge of a deposit of HK$5,000,000 of Dr. Jack Lau since 17 June 2008 and was released on 28 December 2009; and

(iii) 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, since 3 March 2008 and was released on 30 December 2009.

Dr. Jack Lau, Mr. Heung, Lap Chi Eugene, Increasing Grace and the Government of the Hong Kong Special Administrative Region have provided personal, joint and several, corporate or special guarantees for the Group's banking facilities up to an aggregate guarantee amount of HK$94,550,000 and HK$124,750,000 as at 31 December 2009 and 31 December 2008, respectively. Perception Digital BVI has also provided a corporate guarantee for certain of the Group's banking facilities.

A corporate guarantee given by Increasing Grace of HK$10,000,000 and a personal guarantee given by Dr. Jack Lau of HK$4,000,000 for certain of the Group's banking facilities were released on 30 December 2009.

Notes to Financial Statements

31 December 2009

26. Interest-bearing Bank Borrowings (continued)

In connection with certain banking facilities of the Group, a deed of undertaking whereby (i) Jack Lau Limited undertook not to recover certain loan amounts due from Perception Digital BVI or re-assign the loan amounts without the prior written consent of a corresponding creditor banker of the Group (the "JLL Undertaking"); and (ii) Perception Digital BVI undertook not to declare or distribute any dividends of more than 50% of its profit (if any) for each financial year. The JLL Undertaking was released during the year. Subsequent to the end of the reporting period, in connection with certain renewed banking facilities granted to the Group, the Group has undertaken not to declare or distribute any dividends of more than 50% of its profits (if any) for each financial year. In addition, the Company has provided a corporate guarantee to a creditor bank of an unlimited amount to secure certain banking facilities granted to a subsidiary of the Company subsequent to the end of the reporting period.

In respect of certain short term banking facilities granted to the Group, the Group did not 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. During the year ended 31 December 2009, the corresponding banking facilities were renewed and continued to be available to the Group.

Except for certain bank borrowings amounting to HK$27,279,396 and HK$24,431,206 as at 31 December 2009 and 31 December 2008, respectively, which are denominated in United States dollars, all the bank borrowings of the Group are denominated in Hong Kong dollars.

27. Provision

	Group
	Product warranties
	HK$
At 1 January 2009	201,211
Additional provision (note 7)	1,628,040
Amounts utilised during the year	(438,881)
Reversal of unutilised amounts	(27,007)
At 31 December 2009	1,363,363

The Group provides warranties to its customers on certain of its products. The amount of the provision for the warranties is estimated based on sales volumes and the past experience of the level of repairs and returns according to the corresponding contractual sales terms or the Group's policy. The estimation basis is reviewed on an ongoing basis and revised when appropriate.

28. Deferred Tax Assets/Liabilities

Group

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$	Deferred development costs HK$	Total HK$
At 1 January 2008	—	—	—
Deferred tax charged to the income statement during the year*	171,546	269,087	440,633
Gross deferred tax liabilities at 31 December 2008 and at 1 January 2009	171,546	269,087	440,633
Deferred tax charged to the income statement during the year*	47,804	713,546	761,350
Gross deferred tax liabilities at 31 December 2009	219,350	982,633	1,201,983

Deferred tax assets

	Depreciation in excess of related depreciation allowance HK$	Losses available for offsetting against future taxable profits HK$	Warranty provision HK$	Total HK$
At 1 January 2008	78,122	5,081,685	—	5,159,807
Deferred tax charged to the income statement during the year*	(78,122)	(3,163,083)	—	(3,241,205)
Gross deferred tax assets at 31 December 2008 and at 1 January 2009	—	1,918,602	—	1,918,602
Deferred tax credited/(charged) to the income statement during the year*	99,276	(882,065)	224,955	(557,834)
Gross deferred tax assets at 31 December 2009	99,276	1,036,537	224,955	1,360,768

* Net deferred tax charged to the income statement during the years amounted to HK$1,319,184 (2008: HK$3,681,838) (note 10).

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28. Deferred Tax Assets/Liabilities (continued)

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

	Group	
	2009	2008
	HK$	HK$
Gross deferred tax assets recognised in the consolidated statement of financial position	**1,360,768**	1,918,602
Gross deferred tax liabilities recognised in the consolidated statement of financial position	**(1,201,983)**	(440,633)
Net deferred tax assets recognised in the consolidated statement of financial position	**211,842**	1,477,969
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(53,057)**	—

29. Share Capital

Shares

	2009
	HK$
Authorised:	
2,000,000,000 (2008: Nil) ordinary shares of HK$0.1 each	**200,000,000**
Issued and fully paid:	
600,000,000 (2008: Nil) ordinary shares of HK$0.1 each	**60,000,000**

29. Share Capital (continued)

Shares (continued)

During the year, the movements in share capital of the Company were as follows:

(a) Upon incorporation on 11 September 2009, the authorised share capital of the Company was HK$380,000 divided into 3,800,000 shares of HK$0.10 each and one ordinary share of HK$0.10 was allotted and issued nil paid as the subscriber's share (the "Subscriber's Share"), which on that date was transferred to a then shareholder of Perception Digital BVI.

(b) Pursuant to a written resolution of the shareholders of the Company passed on 27 November 2009, the authorised share capital of the Company was increased from HK$380,000 to HK$200,000,000 by the creation of 1,996,200,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

(c) In connection with the Reorganisation as further detailed in note 1.2 to the financial statements and pursuant to a resolution passed in a meeting of the directors of the Company on 27 November 2009, the Company issued and allotted 131,976 ordinary shares of the Company of HK$0.10 each nil paid to the then shareholders of Perception Digital BVI. On 30 November 2009, pursuant to a share transfer agreement entered into between the Company and the then shareholders of Perception Digital BVI, the Company acquired the entire issued share capital of Perception Digital BVI from the then shareholders of Perception Digital BVI by crediting all of the 131,977 then nil paid ordinary shares of the Company of HK$0.10 each held by the then shareholders of Perception Digital BVI (including the Subscriber's Share) as fully paid ordinary shares of the Company.

(d) In connection with a placing (the "Placing") and a public offer (the "Public Offer") of the Company (collectively the "Share Offer"), an aggregate of 150,000,000 new ordinary shares of the Company of HK$0.10 each were issued at a price of HK$0.72 per share for a total cash consideration, before share issue costs, of HK$108,000,000.

(e) Upon the share premium account of the Company being credited as a result of the Share Offer, a total of 449,868,023 ordinary shares of the Company of HK$0.10 each were issued and allotted, credited as fully paid at par by way of capitalisation of the sum of HK$44,986,802.30 standing to the credit of the share premium account of the Company, to the shareholders of the Company whose name appeared on the register of members of the Company on the date of the Prospectus (the "Capitalisation Issue").

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29. Share Capital (continued)

Shares (continued)

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

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

Further details of the Share Offer, the Capitalisation Issue, the Over-allotment Option and the exercise of the Over-allotment Option are also set out in the Prospectus or in an announcement of the Company dated 8 January 2010.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of ordinary shares	**Issued capital** HK$	**Share premium account** HK$	**Total** HK$
Issue of new shares upon incorporation (subsequently credited as fully paid) and pursuant to the Reorganisation (a), (c)	131,977	13,198	—	13,198
Issue of new shares in connection with the Share Offer (d)	150,000,000	15,000,000	93,000,000	108,000,000
Capitalisation Issue (e)	449,868,023	44,986,802	(44,986,802)	—
	600,000,000	60,000,000	48,013,198	108,013,198
Share issue costs	—	—	(17,955,434)	(17,955,434)
As 31 December 2009	600,000,000	60,000,000	30,057,764	90,057,764

30. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 36 of the financial statements.

The Group's capital reserve represents (i) the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the shares of Perception Digital BVI issued in exchange therefor pursuant to a group reorganisation in 2000; (ii) the excess of the nominal value of the shares and the share premium account of Perception Digital BVI acquired pursuant to the Reorganisation as set out in note 1.2 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor; and (iii) a waiver of amounts due to Jack Lau Limited and Mr. Heung, Lap Chi Eugene.

(b) Company

	Notes	**Share premium account** HK$	**Capital reserve** HK$	**Accumulated losses** HK$	**Total** HK$
Issue of new shares in connection with the share offer and public offer	29(d)	93,000,000	—	—	93,000,000
Arising from the Reorganisation		—	10,131,309	—	10,131,309
Capitalisation of share premium pursuant to the Capitalisation Issue	29(e)	(44,986,802)	—	—	(44,986,802)
Share issue costs		(17,955,434)	—	—	(17,955,434)
Waiver of amounts due to related parties		—	45,930	—	45,930
Profit and total comprehensive income for the year		—	—	(1,139,124)	(1,139,124)
At 31 December 2009		30,057,764	10,177,239	(1,139,124)	39,095,879

Notes to Financial Statements

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30. Reserves (continued)

(b) Company (continued)

The Company's capital reserve represents (i) the excess of the net asset value of the subsidiaries acquired pursuant to the Reorganisation referred to in note 1.2 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the waiver of amounts due to Jack Lau Limited and Mr. Heung, Lap Chi Eugene.

31. Note to the Consolidated Statement of Cash Flows

Major non-cash transactions

During the year, certain amounts due to Jack Lau Limited and Mr. Heung, Lap Chi Eugene (the "Related Parties") in an aggregate amount of HK$8,255,552 were settled by way of capitalisation, assumption of certain costs incurred in connection with the Listing or waiver by the Relevant Parties as further detailed in note 34(b) to the financial statements.

32. Contingent Liabilities

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

33. Operating Lease Arrangements

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

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

	2009 **HK$**	2008 HK$
Within one year	**767,862**	1,036,017
In the second to fifth years, inclusive	**200,992**	276,364
	968,854	1,312,381

34. Related Party Transactions

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

	2009 HK$	2008 HK$
Management consultancy fees charged by:		
– Jack Lau Limited	**453,720**	4,803,240
– Prof. Tsui, Chi Ying	**–**	165,000
	453,720	4,968,240

The management consultancy fees were charged based on terms agreed between the relevant parties.

(b) Other transactions with related parties during the year:

(i) Pursuant to a written resolution of the directors of Perception Digital BVI passed on 17 September 2009, an aggregate of 9,776 shares of Perception Digital BVI of US$0.10 each were issued and allotted at par to two of the then shareholders of Perception Digital BVI, credited as fully paid by way of capitalising certain portions of the outstanding amounts payable by the Group to the Related Parties totaling HK$7,625 (the "Capitalisation").

(ii) Pursuant to a written resolution of the directors of Perception Digital BVI passed on 17 September 2009 and certain deeds of undertakings executed by two of the then shareholders of Perception Digital BVI dated 17 September 2009, certain costs incurred in connection with the Listing in an aggregate amount of HK$8,201,997 were borne/assumed by that two parties, the settlement of which was effected by way of offsetting against the outstanding amounts payable by the Group to the Related Parties by the same amount (the "Assumption").

(iii) Pursuant to a written resolution of the directors of Perception Digital BVI passed on 17 September 2009, the remaining balances payable by the Group to the Related Parties after the Capitalisation, the Assumption and certain repayments of HK$45,930 were waived by the Related Parties.

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

	2009 HK$	2008 HK$
Short term employee benefits	**5,901,978**	7,366,142
Post-employment benefits	**48,000**	55,000
	5,949,978	7,421,142

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

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35. Financial Instruments By Category

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

Group:

Financial assets

	2009 HK$	2008 HK$
Loans and receivables:		
Rental deposits	–	571,154
Trade and bills receivables	**333,640,342**	195,167,739
Financial assets included in prepayments, deposits and other receivables	**9,303,786**	2,215,274
Due from a director	–	11,511,364
Pledged deposit	**856,650**	796,676
Cash and bank balances	**63,056,902**	9,356,415
	406,857,680	219,618,622

Financial liabilities

	2009 HK$	2008 HK$
Financial liabilities at amortised cost:		
Trade payables	**293,073,215**	153,016,365
Financial liabilities included in other payables and accruals	**13,133,712**	15,163,715
Loans from related parties	–	27,615,397
Loan from a shareholder	–	525,620
Interest-bearing bank borrowings	**40,267,576**	76,520,073
	346,474,503	272,841,170

35. Financial Instruments By Category (continued)

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

Company:

Financial assets

	2009 HK$
Loans and receivables:	
Due from subsidiaries	**51,082,242**
Other receivable	**7,024,720**
Cash and bank balances	**36,817,197**
	94,924,159

Financial liabilities

	2009 HK$
Financial liabilities at amortised cost:	
Other payables and accruals	**5,972,787**

36. 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/raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, rental deposits, financial assets included in prepayments, deposits and other receivables, pledged deposit, financial liabilities included in other payables and accruals, and amount due from a director, which arise directly from its operations.

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

Notes to Financial Statements

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36. Financial Risk Management Objectives and Policies (continued)

Interest risk

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

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$
Year ended 31 December 2009		
Hong Kong dollar	25	(107,641)
Hong Kong dollar	(25)	107,641
United States dollar	25	(38,344)
United States dollar	(25)	38,344
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

Foreign currency risk

The Group has transactional currency exposures. Such exposures primarily arise 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 during the years ended 31 December 2009 and 2008, and the units' monetary assets and liabilities denominated in foreign currencies that were retranslated at the functional currency rates of exchange ruling as at the end of the reporting period were mainly denominated in Hong Kong dollars. As the 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 is not significant.

36. Financial Risk Management Objectives and Policies (continued)

Credit risk

The Group primarily trades with recognised and creditworthy third parties. It is the Group's policy that advanced payments are generally required for new customers. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Since the Group primarily trades with recognised 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, rental deposits, financial assets included in deposits and other receivables, amount due from a director and a pledged deposit, arises from default of the counterparty, 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 the end of the reporting period, the Group has certain concentrations of credit risk as 79.0% (2008: 83.9%) of the Group's trade and bills receivables were due from the Group's largest customer and 98.8% (2008: 94.7%) 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 are disclosed in note 19 to the financial statements.

Liquidity risk

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

Notes to Financial Statements

31 December 2009

36. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

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

Group

	2009			
	No fixed terms of repayment/ on demand HK$	**Less than 1 year HK$**	**1 to 5 years HK$**	**Total HK$**
Trade payables	**—**	**293,073,215**	**—**	**293,073,215**
Financial liabilities included in other payables and accruals	**—**	**12,988,215**	**—**	**12,988,215**
Loans from related parties and a shareholder	**—**	**—**	**—**	**—**
Interest-bearing bank borrowings	**—**	**36,004,881**	**5,781,700**	**41,786,581**
	—	**342,066,311**	**5,781,700**	**347,848,011**

	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
	35,841,259	237,386,025	671,149	273,898,433

Company

	2009 Less than 1 year HK$
Financial liabilities - other payables and accruals	5,972,787

36. Financial Risk Management Objectives and Policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group's capital comprises all components of equity.

37. Fair Values of Financial Assets and Liabilities

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

38. Approval of the Consolidated Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 22 March 2010.

Financial Summary

A summary of the Group's results for the last three financial years and the assets and liabilities of the Group as at 31 December 2009, 2008 and 2007, as extracted from the published audited financial statements for the year ended 31 December 2009/the prospectus of the Company dated 4 December 2009, is set out below. The amounts as set out in this financial summary are prepared as if the current structure of the Group had been in existence throughout the years presented.

	Year ended 31 December		
	2009	2008	2007
	HK$	HK$	HK$
RESULTS			
REVENUE	**548,148,089**	555,780,401	616,738,169
Cost of sales	**(461,530,840)**	(460,446,469)	(493,990,112)
Gross profit	**86,617,249**	95,333,932	122,748,057
Other income	**899,908**	582,718	729,186
Research and development costs	**(15,629,989)**	(26,273,609)	(24,362,543)
Selling and distribution costs	**(13,946,828)**	(15,556,055)	(18,079,881)
General and administrative expenses	**(26,146,395)**	(31,978,348)	(26,078,472)
Other expenses, net	**(518,912)**	(4,603,711)	(3,870,515)
Finance costs	**(3,882,964)**	(4,821,828)	(11,231,806)
PROFIT BEFORE TAX	**27,392,069**	12,683,099	39,854,026
Income tax credit/(expense)	**234,335**	(4,520,419)	(9,067,718)
PROFIT FOR THE YEAR	**27,626,404**	8,162,680	30,786,308
Attributable to:			
Owners of the parent	**27,626,404**	8,162,680	30,786,308

	At 31 December		
	2009	2008	2007
	HK$	HK$	HK$
ASSETS AND LIABILITIES			
TOTAL ASSETS	**430,701,326**	241,872,339	285,033,710
TOTAL LIABILITIES	**(348,448,425)**	(277,806,043)	(330,016,096)
	82,252,901	(35,933,704)	(44,982,386)