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

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

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2010

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

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

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

This announcement, for which the directors (the "Directors") of Perception Digital Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this announcement misleading.

HIGHLIGHTS

- The Group recorded a turnover of approximately HK$210.2 million for the six months ended 30 June 2010 (2009: approximately HK$147.7 million).

- The net loss attributable to shareholders for the six months ended 30 June 2010 amounted to approximately HK$2.8 million as compared to net profit of approximately HK$3.7 million for the corresponding period in 2009.

- The Board does not recommend the payment of any dividend for the six months ended 30 June 2010.

INTERIM RESULTS (Unaudited)

The board of Directors (the "Board") hereby presents the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2010 together with the comparative audited figures for the corresponding period in 2009, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		Three months ended 30 June		Six months ended 30 June	
		2010	2009	**2010**	2009
	Notes	***HK$***	*HK$*	***HK$***	*HK$*
		(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Audited)*
REVENUE	*3*	**138,763,216**	100,303,534	**210,184,894**	147,737,431
Cost of sales		**(124,525,313)**	(79,129,799)	**(183,478,715)**	(117,424,741)
Gross profit		**14,237,903**	21,173,735	**26,706,179**	30,312,690
Other income		**82,672**	9,950	**271,399**	12,092
Research and development costs		**(4,926,784)**	(3,566,717)	**(9,818,777)**	(7,001,435)
Selling and distribution costs		**(2,164,436)**	(2,741,068)	**(5,262,761)**	(5,602,580)
General and administrative expenses		**(7,575,284)**	(5,016,551)	**(14,419,925)**	(12,216,713)
Other expenses, net		**(5,349)**	(400,608)	**(5,349)**	(431,220)
Finance costs	*5*	**(576,503)**	(1,014,136)	**(1,128,241)**	(2,056,991)
PROFIT/(LOSS) BEFORE TAX	*6*	**(927,781)**	8,444,605	**(3,657,475)**	3,015,843
Income tax credit/(charge)	*7*	**580,067**	(1,560,610)	**813,566**	669,554
PROFIT/(LOSS) FOR THE PERIOD		**(347,714)**	6,883,995	**(2,843,909)**	3,685,397
Attributable to:					
Owners of the parent		**(347,714)**	6,883,995	**(2,843,909)**	3,685,397
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
— Basic and diluted	*8*	**(0.06) cent**	1.53 cent	**(0.46) cent**	0.82 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Three months ended 30 June		**Six months ended 30 June**	
	2010	2009	**2010**	2009
	HK$	*HK$*	***HK$***	*HK$*
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Audited)*
PROFIT/(LOSS) FOR THE PERIOD	**(347,714)**	6,833,995	**(2,843,909)**	3,685,397
OTHER COMPREHENSIVE INCOME/(LOSS):				
Exchange differences on translation	**126**	—	**(22,657)**	—
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(347,588)**	6,883,995	**(2,866,566)**	3,685,397
Attributable to:				
Owners of the parent	**(347,588)**	6,883,995	**(2,866,566)**	3,685,397

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	**30 June 2010 HK$ (Unaudited)**	31 December 2009 HK$ (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,155,540**	4,848,927
Deferred development costs		**9,187,308**	7,691,097
Deposits for purchase of items of property, plant and equipment		**325,599**	221,119
Deferred tax assets		**972,350**	211,842
Total non-current assets		**14,640,797**	12,972,985
CURRENT ASSETS			
Inventories		**14,880,639**	9,897,959
Trade and bills receivables	*10*	**252,766,782**	333,640,342
Prepayments, deposits and other receivables		**5,202,118**	10,276,488
Pledged deposit		**19,858,973**	856,650
Cash and bank balances		**53,332,299**	63,056,902
Total current assets		**346,040,811**	417,728,341
CURRENT LIABILITIES			
Trade payables	*11*	**211,321,512**	293,073,215
Other payables and accruals		**12,311,288**	13,133,712
Interest-bearing bank borrowings		**33,024,586**	35,442,757
Tax payable		**557,502**	557,502
Provision		**406,021**	1,363,363
Total current liabilities		**257,620,909**	343,570,549
NET CURRENT ASSETS		**88,419,902**	74,157,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**103,060,699**	87,130,777
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing		**10,588,765**	4,824,819
Deferred tax liabilities		**—**	53,057
Total non-current liabilities		**10,588,765**	4,877,876
Net assets		**92,471,934**	82,252,901
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*12*	**62,250,000**	60,000,000
Reserves		**30,221,934**	22,252,901
		92,471,934	82,252,901

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Note	Issued capital	Share premium account	Capital reserve	Employee share-based compensation reserve	Final dividend 2009	Exchange fluctuation reserve	Accumulated losses	Total equity
		HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1 January 2009 (audited)		—	—	50,002,346	—	—	768,664	(86,704,714)	(35,933,704)
Total comprehensive income for the period		—	—	—	—	—	—	3,685,397	3,685,397
At 30 June 2009 (audited)		—	—	50,002,346	—	—	768,664	(83,019,317)	(32,248,307)
At 1 January 2010 (unaudited)		60,000,000	30,057,764	50,048,276	—	—	1,225,171	(59,078,310)	82,252,901
Total comprehensive loss for the period		—	—	—	—	—	(22,657)	(2,843,909)	(2,866,566)
Issue of new shares in connection with the over-allotment of shares	*12*	2,250,000	13,950,000	—	—	—	—	—	16,200,000
Share issue costs	*12*	—	(517,457)	—	—	—	—	—	(517,457)
Equity-based share option arrangement		—	—	—	515,556	—	—	—	515,556
2009 final dividend		—	—	—	—	(3,112,500)	—	—	(3,112,500)
At 30 June 2010 (unaudited)		62,250,000	43,490,307	50,048,276	515,556	(3,112,500)	1,202,514	(61,922,219)	92,471,934

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	HK$	*HK$*
	(Unaudited)	*(Audited)*
Net cash inflow/(outflow) from operating activities	**(4,515,343)**	19,839,658
Net cash outflow from investing activities	**(19,974,180)**	(4,144,321)
Net cash inflow/(outflow) from financing activities	**12,164,694**	(13,904,805)
Net increase/(decrease) in cash and cash equivalents	**(12,324,829)**	1,790,532
Cash and cash equivalents at 1 January	**63,056,902**	4,655,224
Effect of foreign exchange rate changes, net	**(22,657)**	—
Cash and cash equivalents at end of period	**50,709,416**	6,445,756
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**53,332,299**	9,249,109
Bank overdrafts	**(2,622,883)**	(2,803,353)
	50,709,416	6,445,756

1.1 CORPORATE INFORMATION

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

During the six months ended 30 June 2010, 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 (the "GEM") 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 condensed consolidated interim financial statements of the Group for the six months ended 30 June 2009 have been presented as a continuation of the existing group using the pooling of interest method. Accordingly, the unaudited condensed consolidated interim income statement was prepared as if the current group structure had been in existence since 1 January 2009 rather than from the date of incorporation of the Company.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention and are presented in Hong Kong dollars. The accounting policies adopted in preparing the unaudited condensed consolidated interim financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 December 2009.

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

Issue of new and revised Hong Kong Financial Reporting Standards

HKFRS 1 (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 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
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]

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective in these financial statements.

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*[2]
HKFRS 9	*Financial Instruments*[4]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendment	Amendment to HK(IFRIC)-Int 14 *HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction — Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

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

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs 2010* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. These amendments are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

3. REVENUE

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

The following table sets out a breakdown of our revenue:

	Six months ended 30 June	
	2010	2009
	HK$	*HK$*
	(Unaudited)	*(Audited)*
Sales of products	**191,860,436**	131,279,066
Royalty income	**4,415,674**	9,953,940
Rendering of services	**13,908,784**	6,504,425
	210,184,894	147,737,431

4. OPERATING SEGMENT INFORMATION

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

Geographical information

The following table presents revenue from external customers for the periods ended 30 June 2010 and 2009 by geographical areas.

	Europe	**United States of America**	**Mainland China**	**Hong Kong**	**Others**	**Total**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Six months ended 30 June 2010						
Revenue from external customers *(Unaudited)*	**106,648,544**	**7,932,648**	**4,763,417**	**82,366,862**	**8,473,423**	**210,184,894**
Six months ended 30 June 2009						
Revenue from external customers *(Audited)*	54,876,996	16,090,882	20,632,427	54,671,134	1,465,992	147,737,431

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

5. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	HK$	*HK$*
	(Unaudited)	*(Audited)*
Interest on bank loans and overdrafts wholly repayable within five years	**743,741**	1,729,179
Bank charges	**384,500**	327,812
	1,128,241	2,056,991

6. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2010	2009
	HK$	*HK$*
	(Unaudited)	*(Audited)*
Depreciation	**1,563,975**	1,408,652
Research and development costs:		
— Deferred expenditure amortised	**2,727,132**	776,872

7. INCOME TAX

No provision for Hong Kong profits tax was made for the six months ended 30 June 2010 and 2009 as the Group had available tax losses to offset the assessable profits arising in Hong Kong generated during those periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2010	2009
	HK$	*HK$*
	(Unaudited)	*(Audited)*
Current — Elsewhere:		
— Charge for the period	**—**	518,746
— Overprovision in prior periods	**—**	(1,552,835)
	—	(1,034,089)
Deferred	**(813,566)**	364,535
Total tax credit for the period	**(813,566)**	(669,554)

7. INCOME TAX *(Continued)*

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

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK$2.8 million (2009: profit of HK$3.7 million), and the weighted average number of 617,693,370 ordinary shares in issue (2009: 450,000,000 ordinary shares). 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 2009.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six months ended 30 June 2010 and 2009 in respect of a dilution, as the impact of the potential dilutive ordinary shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented for the six months ended 30 June 2010, and the Group had no potentially dilutive ordinary shares in issue during the prior period.

9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

10. TRADE AND BILLS RECEIVABLES

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

	30 June 2010	31 December 2009
	HK$	*HK$*
	(Unaudited)	*(Audited)*
Current	**171,372,123**	317,061,244
Less than 31 days	**46,861,835**	12,849,858
31 to 60 days	**20,036,352**	398,882
61 to 90 days	**8,296,061**	2,568,088
Over 90 days	**6,200,411**	762,270
	252,766,782	333,640,342

The credit period is generally 30 to 120 days.

11. TRADE PAYABLES

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

	30 June 2010	31 December 2009
	HK$	*HK$*
	(Unaudited)	*(Audited)*
Within 30 days	**126,159,154**	166,912,980
31 to 60 days	**57,919,954**	75,766,896
Over 60 days	**27,242,404**	50,393,339
	211,321,512	293,073,215

The credit period is generally 30 to 120 days.

12. SHARE CAPITAL

	Number of ordinary shares	**Issued capital**	**Share premium account**	**Total**
		HK$	*HK$*	*HK$*
At 1 January 2010 (unaudited)	600,000,000	60,000,000	30,057,764	90,057,764
Issue of new shares in connection with the Over-Allotment Option *(Note)*	22,500,000	2,250,000	13,950,000	16,200,000
Share issue costs	—	—	(517,457)	(517,457)
At 30 June 2010 (unaudited)	622,500,000	62,250,000	43,490,307	105,740,307

Note:

On 8 January 2010, the Company announced that the over-allotment option (the "Over-Allotment Option") referred to in the Prospectus was fully exercised in respect of an aggregate of 22,500,000 shares of the Company. The listing of and dealing in the said 22,500,000 shares commenced on the GEM of the Stock Exchange on 13 January 2010. The total number of the ordinary shares of the Group in issue was then increased from 600,000,000 shares to 622,500,000 shares.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company is hereby presents the first interim results for the six months ended 30 June 2010 following its successful listing on the GEM of the Stock Exchange on 16 December 2009.

BUSINESS REVIEW

During the six months ended 30 June 2010, revenue of the Group increased by about 42.3% to HK$210.2 million, from HK$147.7 million during the corresponding period in the last fiscal year. This was mainly attributable to the sales of our newly launched mobile phones and personal entertainment devices.

Due to our unmatched self-designed supply chain solutions, instead of solely licensing our technology, some of our customers opted to engage our total solutions spanning from design, manufacturing and packaging. This led to a decrease in our royalty income by about 55.6% to HK$4.4 million. On the other hand, with the introduction of our new personal portable entertainment devices and mobile phones in 2010, our sales of products increased by about 46.1% to HK$191.9 million.

As a result of the outbreak of the debt crisis in Europe in early 2010, our customers faced eroding consumer appetite. As a result, our new products introduction, such as our "Live-Lite" series which cater for various sports, was delayed to second half of 2010 and therefore we were unable to compensate the decline in profit margin of the old products. Consequently, the gross profit margin of the Group declined to 12.7% in the six months ended 30 June 2010 from 20.5% in the corresponding period in 2009.

On the other hand, during the six months ended 30 June 2010, the Group has successfully commenced the sales of mobile phones in South East Asia. Adhering to the Group's unique design supply chain management service business model, we have also provided value-added services to fill an order of specified mobile products for a consumer electronics and communication systems company in France.

In terms of our revenue breakdown, our revenue from sales of goods, royalty fees and income from rendering of services contributed approximately 91.3% (2009: 88.9%), 2.1% (2009: 6.7%) and 6.6% (2009: 4.4%), respectively. The majority of our products were shipped to Europe in both the six months ended 30 June 2010 and the corresponding period in 2009. With the introduction of our mobile phones in 2010, which were mainly delivered to Hong Kong and other countries in South East Asia, our revenue from products delivered to Hong Kong increased to HK$82.4 million in the six months ended 30 June 2010, a big rise from HK$54.7 million for the same period in 2009.

FINANCIAL REVIEW

Results of the Group

Turnover

During the six months ended 30 June 2010, the turnover of the Group amounted to approximately HK$210.2 million, representing an increase of about 42.3% as compared to the corresponding period in 2009. The rise was mainly attributable to the surge in both the sales of products and service income from HK$131.2 million and HK$6.5 million in the six months ended 30 June 2009 to HK$191.9 million and HK$13.9 million, respectively, in the six months ended 30 June 2010 an increase of 46.1% and 113.9%, respectively.

The increase in our sales of products primarily resulted from the introduction of our new personal entertainment devices in April 2010 and the sales of mobile phones commencing in the first half of 2010.

Our service income was mainly derived from the provision for project development and management, as well as marketing services. The increase in the service income in the six months ended 30 June 2010 was contributed by stepping up our sales efforts.

Research and development costs

Our research and development costs increased by about 40.2% in the six months ended 30 June 2010 to HK$9.8 million from HK$7.0 million in the same period in 2009, which was caused by the increase in the number of our research and development professionals in order to cope with an increase in the number of our projects.

Selling and distribution costs

The selling and distribution costs in the six months ended 30 June 2010 amounted to about HK$5.3 million, which is comparable to the amount incurred in the corresponding period in 2009.

General and administrative expenses

Our general and administrative expenses increased by about 18.0% to HK$14.4 million in six months ended 30 June 2010 from HK$12.2 million in the same period in the last fiscal year, which was primarily due to the increase in expenses incurred after the Listing, including but not limited to the directors' fees, professional fees and the share option expenses in relation to the Scheme as mentioned below.

Finance costs

Finance costs decreased by HK$0.9 million, or about 45.2%, to HK$1.1 million for the period under review from HK$2.0 million in the corresponding period in 2009. This was mainly resulted from the repayment of some of our bank loans in December 2009.

Income tax

Income tax credit for the six months ended 30 June 2010 amounted to approximately HK$814,000, representing an increase of about 21.5% as compared to the same period in 2009. Such an increase was primarily resulted from the recognition of tax losses incurred by the Group as deferred tax assets during the six months ended 30 June 2010.

Liquidity and financial resources

As at 30 June 2010, cash and bank balances of the Group amounted to approximately HK$53.3 million (31 December 2009: HK$63.1 million), and within which, about HK$1.0 million (31 December 2009: HK$0.4 million) is denominated in Renminbi.

As at 30 June 2010, the Group had bank borrowings amounting to HK$43.6 million (31 December 2009: HK$40.3 million) and among which, HK$10.6 million (31 December 2009: HK$4.8 million) is not repayable within one year. The bank borrowings carry interest rates ranging from 3.44% to 6.25%. Except for bank borrowings amounting to HK$22.1 million as at 30 June 2010, which are denominated in the United States dollars, all the bank borrowings are denominated in Hong Kong dollars.

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

Gearing ratio

	As at 30 June 2010 *HK$* ***(Unaudited)***	As at 31 December 2009 *HK$* *(Audited)*
Total bank borrowings	**43,613,351**	40,267,576
Equity	**92,471,934**	82,252,091
	136,085,285	122,519,667
Gearing ratio (Total bank borrowings divided by the summation of total bank borrowings and equity)	**32.0%**	32.9%

As at 30 June 2010, the maturity profile of the bank borrowings of the Group falling due within one year, in the second year and the third to fifth years, inclusive, amounted to HK$33.0 million (31 December 2009: HK$35.4 million), HK$3.3 million (31 December 2009: HK$1.1 million) and HK$7.3 million (31 December 2009: HK$3.7 million).

Capital structure

The capital of the Group comprises only ordinary shares. As at 30 June 2010, the total number of the ordinary shares of the Group was 622,500,000 shares.

Significant investments

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

Material acquisitions and disposals

During the six months ended 30 June 2010, there was no material acquisition or disposal of subsidiaries and affiliated companies by the Group.

Charges on the Group's assets

As at 30 June 2010, certain of the Group's assets with a carrying value of approximately HK$24.9 million (31 December 2009: HK$7.7 million) were pledged to secure certain banking facilities granted to the Group.

Foreign currency exposure

The foreign currency exposure of the Group primarily arise from revenue or income generated, cost or expenses incurred, and certain bank and other borrowings denominated in currencies other than the Group's operating units' functional currency. For the Group's operating units that have the United States dollars ("US$") as their functional currency, their foreign currency transactions and the units' monetary assets and liabilities denominated in foreign currencies that were retranslated at the functional currency rates of exchange ruling as at 30 June 2010 were mainly denominated in the Hong Kong dollars ("HK$"). 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 to be low.

Contingent liabilities

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

Commitments

(i) Operating lease arrangements

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

	As at 30 June 2010 ***HK$*** ***(Unaudited)***	As at 31 December 2009 *HK$* *(Audited)*
Within one year	**1,404,115**	767,862
In the second to fifth years, inclusive	**163,306**	200,992
	1,567,421	968,854

(ii) Capital commitments

The Group had the following capital commitments as at the balance sheet date:

	As at 30 June 2010 *HK$* ***(Unaudited)***	As at 31 December 2009 *HK$* *(Audited)*
Contracted, but not provided for	**842,257**	—

OUTLOOK

Looking forward, we will continue to enhance our "Live-Lite" series of products by introducing new features such as Bluetooth and WiFi connectivity and a new user interface. Our first Android-based mobile Internet device is also expected to be launched in the third quarter of 2010.

In addition, the Group has recently secured its first orders to ship the WiMAX voice-over-internet protocol telephony equipment to operators in Africa. WiMAX is a telecommunications protocol that provides fixed and fully mobile internet access through 4G technology, with high network efficiency and at low infrastructure investment cost. This move has demonstrated the Group's ability to provide high-standard mobile communication technology and the Group expects this expertise will help us to tap the lucrative WiMAX market and expand our market presence on the other side of the world.

To achieve long-term growth, the Group is stepping up its efforts to broaden its market coverage and sales network in the PRC as we believe that the PRC's upward momentum will continue in the future and the Group will benefit from the PRC's strong growth.

Despite the operating loss incurred by the Group during the six months ended 30 June 2010, we are confident about the second half of 2010 as the Group's operation is influenced by the seasonal trend of the consumer electronic market, where the traditional peak season lies in the second half of the year. Based on the historical information of the Group, the revenue generated during the twelve months ended 30 June 2010 was approximately HK$610.6 million (twelve months ended 30 June 2009: HK$537.9 million).

Besides, during the six months ended 30 June 2010, the products sold by the Group were mainly related to products launched in 2009 which were subject to wavering consumer appetite in Europe. In the second half of 2010, in addition to the launch of the new "Live-Lite" series which cater for various sports, we will continue to diversify our customer base by introducing new products to new markets, such as mobile phone operators and resellers. We believe the penetration to new market will bring additional revenue and higher profit margin to the Group. Furthermore, our Android-based mobile internet device and a newly developed video sharing device through wireless connection are expected to be launched in the third quarter of 2010. The Group is confident that these new products to be launched in the second half of 2010 will certainly help the Group to strengthen the profit margin.

The service income generated by the Group for the six months ended 30 June 2010 amounted to HK$13.9 million (2009: HK$6.5 million). The Group will continue to actively explore new research and development projects in the second half of 2010 as these services can bring relatively higher profit margins to the Group.

With a strong cash and bank balances of approximately HK$53.3 million and net assets of approximately HK$92.5 million, and through our continuous effort to create innovative products and our strong research and development team, we are confident that the Group is well positioned for future growth and good prospects in the long run.

DIVIDENDS

On 22 March 2010, the Board recommended the payment of a final dividend of HK0.5 cent per ordinary share for the year ended 31 December 2009 to shareholders whose names appeared in the register of members of the Company on 7 May 2010. The proposed final dividend was approved by the shareholders of the Company at the annual general meeting held on 7 May 2010.

The Board does not recommend the payment of any dividend for the six months ended 30 June 2010 (2009: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2010, the Group employed a total of 251 employees. Total staff costs, including directors emoluments, amounted to approximately HK$24.1 million for the six months ended 30 June 2010. The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonuses, share options, medical insurance, provident fund contribution, education subsidy and training to its employees.

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 1 January 2010 to 30 June 2010 is set out below:

Business objectives for the period from 1 January 2010 to 30 June 2010 as stated in the Prospectus	Actual business progress up to 30 June 2010
1. Product and technology development	
To enhance and introduce additional features on the "Live-Lite" series such as lower power consumption, enhanced G-sensor algorithms; commence development of algorithms for new applications under the "Live-Lite" series which cater for other sports; enhance the Web 2.0 base applications; and launch open source-based multimedia Internet devices.	We have completed the development of our "Live-Lite" series of products with lower power consumption, enhanced G-sensor algorithm and GPS functions and the products were launched in April 2010. We have also completed the development of our "Live-Lite" series of products with new applications which can cater for sports such as cycling and rowing. The related products are expected to be launched in the third quarter of 2010. The development of a Web 2.0 base application for social networking support functions has also been completed in March 2010. The launch of open source-based multimedia Internet devices is expected to be within the third quarter of 2010.
2. Broadening our market coverage and expansion of our sales network	
To commence sale of products in the PRC; participate in trade fairs and exhibitions in Hong Kong and overseas; and continue discussions with major consumer electronics and fitness equipment OEMs and fitness institutions.	During the six months ended 30 June 2010, we have started trial shipment of our modules to the utility sector for applications, such as automatic meter reading devices in the PRC. We will continue to establish other domestic sales channels in the PRC. For expansion of our overseas sales network, we have participated in several trade fairs and exhibitions in Europe, the United States and Singapore. We have also contacted certain consumer electronics and fitness equipment OEMs to explore business opportunities during the six months ended 30 June 2010 and the process is expected to continue in the second half of 2010.

3. Enhancing our research and development capability	
To continue hiring additional research and development professionals	During the six months ended 30 June 2010, we have hired additional 24 research and development professionals and will continue to expand our research development team.

Use of proceeds

During the period from 1 January 2010 to 30 June 2010, the net proceeds from the issue of new shares upon Listing had been applied as follows:

	Planned use of proceeds as stated in the Prospectus from 1 January 2010 to 30 June 2010	Actual use of proceeds from 1 January 2010 to 30 June 2010
Product and technology development	HK$3 million	Approximately HK$2.8 million
Broadening market coverage and expansion of our sales network (*Note 1)*	HK$3 million	Approximately HK$1.0 million
Enhancement of research and development capability (*Note 2)*	HK$3 million	Approximately HK$1.1 million

Notes:

1. For expansion of our sales network in the PRC, less proceeds was applied than stated in the Prospectus. The Group expects to focus more on the expansion of sales channel in the PRC and other locations with potential growth in the second half of 2010.

2. As there was a delay in employing new research and development professionals during the six months ended 30 June 2010, less proceeds was applied to the enhancement of our research and development capability. We will further expand our research and development team in the second half of 2010 to cope with our development plan of new products.

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

As at 30 June 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

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

Name of Director	*Notes*	Capacity/ Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Dr. Lau, Jack ("Dr. Lau")	*(a)*	Interest of spouse	181,316,037	29.13%
Mr. Chui, Shing Yip Jeff ("Mr. Chui")	*(b)*	Interest of controlled corporation	16,666,540	2.68%
		Beneficial owner	200,000	0.03%
			16,866,540	2.71%
Prof. Cheng, Shu Kwan Roger ("Prof. Cheng")	*(c)*	Interest of controlled corporation	2,976,655	0.48%
Prof. Tsui, Chi Ying ("Prof. Tsui")	*(d)*	Interest of controlled corporation	11,903,210	1.91%
Dr. Wu, Po Him Philip ("Dr. Wu")		Beneficial owner	1,599,142	0.26%
			214,661,584	34.49%

Notes:

(a) Of the 181,316,037 Shares, 53,828,697 Shares are held by Masteray Limited ("Masteray"), 125,592,340 Shares are held by Swanland Management Limited ("Swanland") and 1,895,000 are held by Ms. Loh, Jiah Yee Katherine ("Ms. Loh"), the spouse of Dr. Lau. 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.

(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.

Save as disclosed above, as at 30 June 2010, none of the Directors or chief executive of the Company or their respective associates had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at 30 June 2010, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company, being 5% or more of the total issued share capital of the Company, as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long position in the Shares:

Name of Substantial Shareholders	*Notes*	Capacity/ Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Swanland		Beneficial owner	125,592,340	20.17%
Masteray		Beneficial owner	53,828,697	8.65%
	(a)	Interest of controlled corporation	125,592,340	20.17%
			179,421,037	28.82%
Ms. Loh	*(b)*	Interest of controlled corporation	179,421,037	28.82%
		Beneficial owner	1,895,000	0.31%
			181,316,037	29.13%
UGH Investment Holding Limited ("UGH")		Beneficial owner	140,482,433	22.57%
Leung, Yee Li Lana ("Ms. Leung")	*(c)*	Interest of controlled corporation	140,482,433	22.57%
Notable Success Investments Limited ("Notable Success")	*(d)*	Beneficial owner	54,196,943	8.71%
Successful Link Limited ("Successful Link")	*(d)*	Interest of controlled corporation	54,196,943	8.71%
Paulo Lam ("Mr. Lam")		Interest of controlled corporation	54,196,943	8.71%

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

Save as disclosed above, as at 30 June 2010, no person (other than the Directors whose interests are set out in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY" above) had registered an interest or a short position in the Shares or underlying shares of the Company that was required to be recorded in the register of the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

As at 30 June 2010, share options to subscribe for an aggregate of 15,500,000 ordinary shares of the Company were granted to certain employees and consultants of the Group pursuant to the share option scheme of the Company adopted on 27 November 2009 (the "Scheme"). Details of the Scheme were disclosed in the 2009 annual report of the Company.

Details of the share options outstanding as at 30 June 2010 under the Scheme are as follows:

	Number of share options							
Name or category of participant	**At 1 Jan 2010**	**Granted during the period**	**Exercised during the period**	**Cancelled/ lapsed during the period**	**At 30 Jun 2010**	**Exercise Price** *(HK$) (Note (b))*	**Date of grant**	**Exercise Period**
Continuous contract employees	—	13,900,000	—	20,000	13,880,000	HK$0.7	26-3-2010	*Note (a)*
Other participate								
Consultants	—	1,600,000	—	—	1,600,000	HK$0.7	26-3-2010	*Note (a)*
		15,500,000	—	20,000	15,480,000			

Note:

(a) Of the 15,480,000 share options, 3,870,000 share options will be exercisable during the period from 26 March 2011 to 25 March 2012, 3,870,000 share options will be exercisable during the period from 26 March 2012 to 25 March 2013, and 7,740,000 share options will be exercisable during the period from 26 March 2013 to 25 March 2014.

(b) The closing price of the shares of the Company immediately before the date on which the share options were granted was HK$0.67 per share.

COMPETING INTERESTS

For the six months ended 30 June 2010, the Directors are not aware of any business or interest for the Directors, the management shareholders or the controlling shareholders of the Company and their associates (as defined under GEM Listing Rules) which compete or may compete, directly or indirectly, with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Quam Capital Limited ("Quam"), the compliance adviser of the Company, neither Quam nor any of its directors, employees or associates (as referred to in Rule 6A.32 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 as at 30 June 2010. 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2010.

CORPORATE GOVERNANCE

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

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

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

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 periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of results. 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 under review.

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 independent non-executive Directors, namely, Dr. Lam Lee, Kiu Yue Alice Piera, Dr. Wu, Po Him Philip and Mr. Shu, Wa Tung Laurence. The committee is chaired by Mr. Shu, Wa Tung Laurence. The primary duties of the audit committee are to supervise the internal control policies, the financial reporting systems and procedures of the Company, to review the financial statements and reports of the Group, and to review the terms of engagement and scope of audit work of the external auditors. The unaudited financial statements of the Group for the six months ended 30 June 2010 have been reviewed by the audit committee.

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

Hong Kong, 6 August 2010

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

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