

# Perception Digital Holdings Limited

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

Stock Code: 8248

## Third Quarterly Report 2010

LIVE-LITE

PAL

Life-style  
Consumer Electronics

Personal Portable  
Entertainment

## **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.**

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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 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 report 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 report misleading.*

## Highlights

- The Group recorded a turnover of approximately HK\$359.0 million for the nine months ended 30 September 2010 (2009: approximately HK\$335.0 million).
- The profit attributable to shareholders for the nine months ended 30 September 2010 amounted to approximately HK\$8.4 million as compared to net profit of approximately HK\$12.4 million for the corresponding period in 2009.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2010.



## Third Quarterly Results (Unaudited)

The board of Directors (the “Board”) is pleased to present the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2010 together with the comparative figures for the corresponding periods in 2009, as follows:

### Condensed Consolidated Income Statement

For the three months and nine months ended 30 September 2010

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2010 HK\$ (Unaudited)	2009 HK\$ (Unaudited)	2010 HK\$ (Unaudited)	2009 HK\$ (Unaudited)
<b>REVENUE</b>	3	<b>148,810,149</b>	187,268,879	<b>358,995,043</b>	335,006,310
Cost of sales		<b>(125,988,619)</b>	(162,823,614)	<b>(309,467,334)</b>	(280,248,355)
Gross profit		<b>22,821,530</b>	24,445,265	<b>49,527,709</b>	54,757,955
Other income		<b>103,476</b>	49,291	<b>374,875</b>	61,383
Research and development costs		<b>(683,901)</b>	(3,635,255)	<b>(10,502,678)</b>	(10,636,690)
Selling and distribution costs		<b>(2,870,579)</b>	(3,513,695)	<b>(8,133,340)</b>	(9,116,275)
General and administrative expenses		<b>(5,942,853)</b>	(6,767,963)	<b>(20,362,778)</b>	(18,984,676)
Other expenses, net		—	(91,139)	<b>(5,349)</b>	(522,359)
Finance costs	5	<b>(694,338)</b>	(983,717)	<b>(1,822,579)</b>	(3,040,708)
<b>PROFIT BEFORE TAX</b>		<b>12,733,335</b>	9,502,787	<b>9,075,860</b>	12,518,630
Income tax charge	6	<b>(1,499,344)</b>	(813,699)	<b>(685,778)</b>	(144,145)
<b>PROFIT FOR THE PERIOD</b>		<b>11,233,991</b>	8,689,088	<b>8,390,082</b>	12,374,485
Attributable to: owners of the parent		<b>11,233,991</b>	8,689,088	<b>8,390,082</b>	12,374,485
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>					
— Basic and diluted	7	<b>HK1.80 cents</b>	HK1.93 cents	<b>HK1.35 cents</b>	HK2.75 cents

## Notes to the Condensed Consolidated Financial Statement

*For the nine months ended 30 September 2010*

### 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 nine months ended 30 September 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 third quarterly financial statements of the Group for the nine months ended 30 September 2009 have been presented as a continuation of the existing group using the pooling of interest method. Accordingly, the unaudited consolidated third quarterly 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 third quarterly 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 third quarterly 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 third quarterly 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.

## 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 royalty income received and receivable; and the value of services rendered during the period.

The following table sets out a breakdown of our revenue:

	<b>Nine months ended 30 September</b>	
	<b>2010 HK\$ (Unaudited)</b>	2009 HK\$ (Unaudited)
Sales of products	<b>331,172,156</b>	310,888,663
Royalty income	<b>7,445,725</b>	11,466,280
Rendering of services	<b>20,377,162</b>	12,651,367
	<b>358,995,043</b>	335,006,310

#### 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 September 2010 and 2009 by geographical areas.

	Europe	United States of America	Mainland China	Hong Kong	Others	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

#### Nine months ended

##### 30 September 2010

Revenue from						
external customers	153,134,787	16,716,825	15,879,571	159,731,910	13,531,950	358,995,043

#### Nine months ended

##### 30 September 2009

Revenue from						
external customers	146,877,456	44,217,163	28,621,836	103,857,132	11,432,723	335,006,310

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

## Nine months ended 30 September

	2010 HK\$ (Unaudited)	2009 HK\$ (Unaudited)
Interest on bank loans and overdrafts wholly repayable within five years	1,320,425	2,449,169
Bank charges	502,154	591,539
	<b>1,822,579</b>	3,040,708

## 6. Income Tax

Hong Kong profits tax is provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

## Nine months ended 30 September

	2010 HK\$ (Unaudited)	2009 HK\$ (Unaudited)
Current — Hong Kong:		
— Charge for the period	370,778	1,921,968
Current — Elsewhere:		
— Charge for the period	—	518,746
— Overprovision in prior periods	—	(1,552,835)
	<b>370,778</b>	887,979
Deferred	<b>315,000</b>	(743,734)
Total tax charge for the period	<b>685,778</b>	144,145



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%.

## **7. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent**

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$8.4 million (2009: HK\$12.4 million), and the weighted average number of 619,313,187 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 per share amounts presented for the nine months ended 30 September 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 earnings per share amounts presented for the nine months ended 30 September 2010, and the Group had no potentially dilutive ordinary shares in issue during the prior period.



## 8. Reserves

The movements of the Group's reserves during the period are as follow:

	<b>Nine months ended 30 September</b>	
	<b>2010 HK\$ (Unaudited)</b>	2009 HK\$ (Unaudited)
At beginning of the period	<b>22,252,901</b>	(35,933,704)
Total comprehensive income	<b>8,405,334</b>	11,910,594
Issue of new shares in connection with the Over-Allotment Option (Note)	<b>13,950,000</b>	—
Share issue costs	<b>(517,457)</b>	—
Equity-based share option arrangement	<b>978,875</b>	—
2009 final dividend	<b>(3,112,500)</b>	—
At end of the period	<b>41,957,153</b>	(24,023,110)

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

### Business Review

During the nine months ended 30 September 2010, the revenue of the Group increased by approximately 7.2% to HK\$359.0 million from HK\$335.0 million during the corresponding period in the last fiscal year. The increase was mainly attributable to the sales of our new personal portable entertainment devices, GSM mobile phones and WiMAX voice-over-protocol telephony equipment launched in the second quarter of 2010.

The Group's net profit for the nine months ended 30 September 2010 amounted to HK\$8.4 million, which represented a decrease of approximately 32.2% as compared to the net profit of HK\$12.4 million in the nine months ended 30 September 2009. This was mainly due to the eroding consumer appetite resulted from the outbreak of the debt crisis in Europe in early 2010, which delayed the launch of our new Live-Lite series of products, where the gross profit margin is relatively higher, to second half of 2010. However, the launch of our new personal portable entertainment devices, GSM mobile phones and WiMAX voice-over-protocol telephony equipment in the second quarter of 2010, which also contributed higher gross profit margin, had led to an increase in our gross profit margin for the three months ended 30 September 2010 to 15.3% from 13.1% in the three months ended 30 September 2009, and the net profit of the Group increased by 29.3% to HK\$11.2 million during the three months ended 30 September 2010 from HK\$8.7 million during the corresponding period in last fiscal year.

In terms of our revenue breakdown, our revenue from sales of goods, royalty fees and income from rendering of services contributed approximately 92.2% (2009: 92.8%), 2.1% (2009: 3.4%) and 5.7% (2009: 3.8%), respectively. The majority of our products were shipped to Europe. With the introduction of our mobile phones in 2010, where the goods were mainly delivered to Hong Kong and other countries in South East Asia, and upon requests from certain customers, our revenue from products delivered to Hong Kong increased by 53.8% and represented 44.5% of our revenue during the nine months ended 30 September 2010.



## Financial Review

### *Turnover*

During the nine months ended 30 September 2010, the turnover of the Group amounted to HK\$359.0 million, representing an increase of 7.2% as compared to the corresponding period in 2009. The rise was mainly attributable to the increase in both the sales of products and service income from HK\$310.9 million and HK\$12.7 million in the nine months ended 30 September 2009 to HK\$331.2 million to HK\$20.4 million, respectively, in the nine months ended 30 September 2010, representing an increase of 6.5% and 61.1%, respectively.

The increase in our sales of products mainly resulted from the launch of our new personal portable entertainment devices, GSM mobile phones and WiMAX voice-over-protocol telephony equipment in the second quarter of 2010.

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

### *Research and development costs*

The research and development costs during the nine months ended 30 September 2010 amounted to HK\$10.5 million, which is comparable to the amount incurred in the corresponding period in the last fiscal year.

### *Selling and distribution costs*

The selling and distribution costs for the current period under review amounted to HK\$8.1 million, which represented a decrease of 10.8% from HK\$9.1 million in the nine months ended 30 September 2009. The decrease was mainly resulted from the termination of certain commission arrangements with sales agents after we have established a strong relationship with our customers.

### ***General and administrative expenses***

General and administrative expense increased by 7.3% from HK\$19.0 million during the nine months ended 30 September 2009 to HK\$20.4 million during the nine months ended 30 September 2010, which was mainly due to the increase in the expenses after the Listing, including but not limited to the directors' fees, professional fees and the share option expenses in relation to the Scheme mentioned below.

### ***Finance costs***

Our finance costs decreased by HK\$1.2 million, or 40.1%, from HK\$3.0 million in the nine months ended 30 September 2009 to HK\$1.8 million during the current period under review. The decrease was primarily due to the repayment of some of our bank loans in December 2009.

### ***Income tax expenses***

Income tax charge for the period under review amounted to approximately HK\$686,000, representing an increase of HK\$542,000, or 375.8%, as compared to the income tax charge of approximately HK\$144,000 in the corresponding period in the last fiscal year amounting to approximately HK\$144,000. Such increase was mainly attributable to an over-provision of tax amounting to HK\$1.6 million, which was credited to the income statement during the nine months ended 30 September 2009, where there is no such over-provision during the nine months ended 30 September 2010.

### ***Outlook***

During the nine months ended 30 September 2010, the Group has been facing many challenges from the outbreak of the debt crisis in Europe in early 2010, which had affected the results of the Group during the first half of 2010. However, during the three months ended 30 September 2010, the Group was able to break through the difficult situation by introducing its new personal portable entertainment devices, GSM mobile phones and WiMAX voice-over-protocol telephony equipment in the second quarter of 2010. Together with the effect from imposing certain cost saving measures during the three months ended 30 September 2010, the Group achieved a better performance during the three months ended 30 September 2010 as compared to the corresponding period in the last fiscal year.



Looking ahead, the Group will continue to develop new series of products such as the “Live-Lite” series and Android-based mobile Internet devices, and explore new areas of development. Recently, the Group has successfully launched Vulkano, being its first home entertainment device, which allows the users to enjoy television experience anywhere in the world through Internet on their Smartphones and personal computers. The Group also successfully launched its first Android-based mobile Internet device during the three months ended 30 September 2010. We have received positive feedback from potential customers during the Hong Kong Electronics Fair held in October 2010 on these new products and we believe these new products will bring good prospect to the Group in the near future.

Besides developing new products, we are also targeting to broaden our market coverage and sales network in the PRC as we believe the PRC’s upward momentum will continue in the future and the Group will benefit from its strong growth.

During the current period under review, the Group recorded a service income of HK\$20.4 million (2009: HK\$12.7 million) for providing services such as marketing and project development and management. The Group will continue to explore new projects as these services can bring relatively higher profit margins to the Group.

## **Dividends**

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

## **Directors’ and Chief Executive’s Interests and Short Positions In Shares, Underlying Shares and Debentures of The Company**

As at 30 September 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”):**

<b>Name of Director</b>	<b>Notes</b>	<b>Capacity/ Nature of interest</b>	<b>Number of Shares interested</b>	<b>Percentage of the Company's issued share capital</b>
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%
			<u>16,866,540</u>	<u>2.71%</u>
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”)	(e)	Beneficial owner	1,599,142	0.26%
			<u>214,661,584</u>	<u>34.49%</u>

**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. Mr. Chui tendered his resignation as executive Director with effect from 13 October 2010.



- (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.
- (e) Dr. Wu tendered his resignation as an independent non-executive Director with effect from 2 October 2010.

Save as disclosed above, as at 30 September 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 September 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:**

<b>Name of Substantial Shareholders</b>	<b>Notes</b>	<b>Capacity/ Nature of interest</b>	<b>Number of Shares interested</b>	<b>Percentage of the Company's issued share capital</b>
Swanland		Beneficial owner	125,592,340	20.17%
Masteray	(a)	Beneficial owner	53,828,697	8.65%
		Interest of controlled corporation	125,592,340	20.17%
			<u>179,421,037</u>	<u>28.82%</u>
Ms. Loh	(b)	Interest of controlled corporation	179,421,037	28.82%
		Beneficial owner	1,895,000	0.31%
			<u>181,316,037</u>	<u>29.13%</u>
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 September 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 September 2010, share options to subscribe for an aggregate of 15,100,000 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 September 2010 under the Scheme are as follows:

Name or category of participant	Number of share options					At 30 Sep 2010	Exercise Price (HK\$)	Date of grant	Exercise Period
	At 1 Jan 2010	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period					
<b>Continuous contract employees</b>	–	13,900,000	–	400,000	13,500,000	HK\$0.7	26-3-2010	Note (a)	
<b>Other participate</b>									
Consultants	–	1,600,000	–	–	1,600,000	HK\$0.7	26-3-2010	Note (a)	
	–	15,500,000	–	400,000	15,100,000				

Note:

- (a) Of the 15,100,000 share options, 3,775,000 share options will be exercisable during the period from 26 March 2011 to 25 March 2012, 3,775,000 share options will be exercisable during the period from 26 March 2012 to 25 March 2013, and 7,550,000 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 nine months ended 30 September 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 September 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 nine months ended 30 September 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, Prof. Chin, Tai Hong Roland 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 nine months ended 30 September 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, 9 November 2010

*As at the date of this report, the executive Directors are Dr. Lau, Jack and Mr. Tao, Hong Ming; the non-executive Directors are Prof. Cheng, Roger Shu Kwan and Prof. Tsui, Chi Ying; and the independent non-executive Directors are Dr. Lam Lee, Kiu Yue Alice Piera, Prof. Chin, Tai Hong Roland and Mr. Shu, Wa Tung Laurence.*

