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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8248)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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.

FINANCIAL HIGHLIGHTS

- The Group recorded a turnover of approximately HK$497.7 million for the year ended 31 December 2010 (2009: HK$548.1 million).

- The net profit attributable to shareholders of the Company for the year ended 31 December 2010 amounted to HK$23.0 million (2009: 27.6 million).

- The Board recommends a final dividend of HK0.5 cent per share for the year ended 31 December 2010 (2009: HK0.5 cent per share).

ANNUAL RESULTS

The board of Directors (the "**Board**") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2010 together with the comparative figures for the corresponding period in 2009.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 HK$	2009 HK$
REVENUE	4	**497,683,452**	548,148,089
Cost of sales		**(423,252,233)**	(461,530,840)
Gross profit		**74,431,219**	86,617,249
Other income	5	**673,347**	899,908
Research and development costs		**(7,357,953)**	(15,629,989)
Selling and distribution costs		**(10,338,614)**	(13,946,828)
General and administrative expenses		**(27,776,524)**	(26,146,395)
Other expenses, net		**(144,036)**	(518,912)
Finance costs	6	**(2,591,923)**	(3,882,964)
PROFIT BEFORE TAX	7	**26,895,516**	27,392,069
Income tax credit/(expense)	8	**(3,871,559)**	234,335
PROFIT FOR THE YEAR		**23,023,957**	27,626,404
Attributable to:			
Owners of the parent		**23,023,957**	27,626,404
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9	***HK cents***	*HK cents*
Basic and diluted		**3.7**	6.1

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	2010	2009
	HK$	*HK$*
PROFIT FOR THE YEAR	**23,023,957**	27,626,404
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**315,223**	456,507
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**23,339,180**	28,082,911
Attributable to:		
Owners of the parent	**23,339,180**	28,082,911

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$	2009 HK$ (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,651,187**	4,848,927
Deferred development costs		**22,190,769**	7,691,097
Deposits for purchase of items of property, plant and equipment		**566,458**	221,119
Deferred tax assets		**139,734**	211,842
Total non-current assets		**27,548,148**	12,972,985
CURRENT ASSETS			
Inventories		**36,491,318**	9,897,959
Trade and bills receivables	*11*	**188,382,008**	333,640,342
Prepayments, deposits and other receivables		**14,520,493**	10,276,488
Pledged deposits		**9,183,376**	856,650
Cash and cash equivalents		**39,497,771**	63,056,902
Total current assets		**288,074,966**	417,728,341
CURRENT LIABILITIES			
Trade payables	*12*	**125,287,874**	293,073,215
Other payables and accruals		**10,010,218**	13,133,712
Interest-bearing bank borrowings		**47,616,385**	40,267,576
Tax payable		**2,030,352**	557,502
Provision		**891,142**	1,363,363
Total current liabilities		**185,835,971**	348,395,368
NET CURRENT ASSETS		**102,238,995**	69,332,973
TOTAL ASSETS LESS CURRENT LIABILITIES		**129,787,143**	82,305,958
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**7,766,604**	–
Deferred tax liabilities		**2,424,120**	53,057
Total non-current liabilities		**10,190,724**	53,057
Net assets		**119,596,419**	82,252,901
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*13*	**62,250,000**	60,000,000
Reserves	*14*	**57,346,419**	22,252,901
Total equity		**119,596,419**	82,252,901

NOTES:

1. CORPORATE INFORMATION

Perception Digital Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 11 September 2009. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as 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.

2. REORGANISATION AND BASIS OF PREPARATION

Pursuant to a group reorganisation (the "Reorganisation") for the purpose of listing (the "Listing") of 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 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 had not resulted in any change of economic substances, the consolidated financial statements of the Group for the year ended 31 December 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 were prepared as if the group structure immediately after the Reorganisation had been in existence throughout the year ended 31 December 2009 rather than from the date of incorporation of the Company. The comparative consolidated statement of financial position as at 31 December 2009, presented assets and liabilities of the companies comprising the Group, as if the group structure immediately after the Reorganisation had been in existence since 1 January 2009.

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.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

HK Interpretation 5: *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

HK Interpretation 5 requires that a loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement.

Prior to the adoption of this interpretation, the Group's term loans were classified in the statement of financial position separately as to the current and non-current liability portions based on the maturity dates of repayment. Upon the adoption of the interpretation, certain term loans have been reclassified as current liabilities. The interpretation has been applied by the Group retrospectively and comparative amounts have been restated. In addition, as a result of this change and as required by HKAS 1 *Presentation of Financial Statements*, the Group is required to present the consolidated statement of financial position as at the beginning of the earliest comparative period, i.e., as at 1 January 2009, upon the retrospective application of HK Interpretation 5. However, since the adoption of this interpretation has had no impact on the consolidated statement of financial position of the Group as at 1 January 2009, the presentation of such statement which is readily available in the annual report of the Group published in the preceding year, provides no additional information to the users of these financial statements. Accordingly, the statement of financial position as at 1 January 2009 has not been presented in these financial statements.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

HK Interpretation 5: *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* *(Continued)*

The above change has had no effect on the reported profit or loss, total comprehensive income, earnings per share or equity for any period presented. The effect of adoption of HK Interpretation 5 on the consolidated financial position of the Group is summarised as follows:

	31 December 2010	31 December 2009	1 January 2009
	HK$	*HK$*	*HK$*
CURRENT LIABILITIES			
Increase in interest-bearing bank borrowings	**1,210,189**	4,824,819	–
NON-CURRENT LIABILITIES			
Decrease in interest-bearing bank borrowings	**1,210,189**	4,824,819	–

There was no impact on the net assets of the Group.

Other changes in classification

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group's results of operations and financial position.

Amendment to HKAS 7 *Statement of Cash Flows* included in *Improvements to HKFRSs 2009* (the "HKAS 7 Amendment") requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

In the prior year's financial statements, the Group presented cash flows relating to research and development costs as cash flows from operating activities. During the current year, the Group changed the classification of cash flows relating to development costs that result in a recognised asset in the statement of financial position as cash flows from investing activities, which is in accordance with the requirement of HKAS 7 Amendment, as, in the opinion of the directors, it would result in a more appropriate presentation of the cash flows of the Group. This change has been applied retrospectively and comparative amounts have been restated.

The above change has had no effect on the reported profit or loss, total comprehensive income, earnings per share or equity of the Group for any period presented or on the consolidated statement of financial position as at 31 December 2010 and 2009, and 1 January 2009. The effect on the consolidated statement of cash flows is summarised as follows:

	2010	2009
	HK$	*HK$*
Increase in net cash flows from operating activities	**20,257,009**	8,180,402
Decrease in net cash flows from investing activities	**20,257,009**	8,180,402

3.2 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 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 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
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 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[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 July 2011*
[5] *Effective for annual periods beginning on or after 1 January 2012*
[6] *Effective for annual periods beginning on or after 1 January 2013*

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

4. REVENUE AND OPERATING SEGMENT INFORMATION

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

An analysis of revenue is as follows:

	2010	2009
	HK$	*HK$*
Sales of goods	**450,387,489**	515,289,134
Rendering of services	**34,603,046**	13,259,100
Royalty income	**12,692,917**	19,599,855
	497,683,452	548,148,089

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 making decisions about 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.

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

Geographical information

The following tables present revenue from external customers for the years ended 31 December 2010 and 2009, and certain non-current asset information as at 31 December 2010 and 2009, by geographical areas.

	European Union	United States of America	Mainland China	Hong Kong	Others	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Year ended 31 December 2010						
Revenue from external customers	189,636,419	31,007,122	63,997,817	179,314,260	33,727,834	497,683,452
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
As at 31 December 2010						
Non-current assets	–	–	7,089,640	20,318,774	–	27,408,414
As at 31 December 2009						
Non-current assets	–	–	3,464,678	9,296,465	–	12,761,143

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 asset information by geographical areas is based on the locations of the assets, excluding deferred tax assets.

Information about a major customer

Revenue for the year of HK$368,248,237 (2009: HK$462,799,780) was derived from transactions with a single customer, which amounted to 10 per cent or more of the Group's total revenue for the year.

5. OTHER INCOME

	2010	2009
	HK$	*HK$*
Bank interest income	**23,968**	14,548
Marketing and service income	**73,028**	149,507
Management service income	**39,000**	735,853
Government subsidy	**114,550**	–
Others	**422,801**	–
	673,347	899,908

6. FINANCE COSTS

	2010	2009
	HK$	*HK$*
Interest on bank loans and overdrafts wholly repayable within five years	**1,916,538**	3,111,191
Bank charges	**675,385**	771,773
	2,591,923	3,882,964

7. PROFIT BEFORE TAX

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

	2010	2009
	HK$	*HK$*
Cost of inventories sold and services rendered	**423,252,233**	461,530,840
Depreciation	**3,102,021**	2,907,774
Research and development costs:		
Deferred expenditure amortised^	**5,877,644**	2,781,578
Current year expenditure	**7,357,953**	15,629,989
	13,235,597	18,411,567
Minimum lease payments under operating leases:		
Land and buildings	**2,626,780**	2,496,852
Office equipment	**112,966**	94,367
Motor vehicles	**173,200**	–
	2,912,946	2,591,219
Auditors' remuneration	**1,350,000**	1,150,000
Employee benefit expense (including directors' remuneration):		
Wages, salaries, allowances, bonuses and benefits in kind	**42,797,263**	42,474,956
Equity-settled share option expense	**1,434,295**	–
Pension scheme contributions (defined contribution schemes)	**2,359,891**	813,180
Less: Amount capitalised	**(20,257,009)**	(8,180,402)
	26,334,440	35,107,734
Foreign exchange differences, net	**(283,518)**	(35,906)
Impairment of items of property, plant and equipment*	**23,849**	503,974
Impairment of trade receivables	**116,250**	36,436
Write-back of provision for impairment of trade receivables	**(5,613)**	(83,805)
Write-down of inventories to net realisable value^	**694,563**	808,772
Product warranty provision:		
Additional provision	**909,850**	1,628,040
Reversal of unutilised provision	**(26,159)**	(27,007)
	883,691	1,601,033
Loss on disposal of items of property, plant and equipment, net	**9,550**	12,861

* *The impairment of items of property, plant and equipment is 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.*

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No provision for current Hong Kong profits tax was made for the prior year as the Group had available tax losses brought forward from prior years to offset the assessable profits arising in Hong Kong generated 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.

	2010	2009
	HK$	*HK$*
Group:		
Current – Hong Kong:		
– Charge for the year	**1,156,758**	–
– Underprovision in prior years	**26,377**	–
Current – Elsewhere:		
– Charge for the year	**245,253**	–
– Overprovision in prior years	**–**	(1,553,519)
	1,428,388	(1,553,519)
Deferred	**2,443,171**	1,319,184
Total tax charge/(credit) for the year	**3,871,559**	(234,335)

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

The calculation of basic earnings per share is based on:

	2010	2009
	HK$	*HK$*
Earnings		
Profit attributable to the ordinary equity holders of the parent	**23,023,957**	27,626,404

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year	**621,760,274**	456,575,342

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 for the year ended 31 December 2009, a total of 450,000,000 ordinary shares of the Company issued pursuant to a reorganisation and a capitalisation issue in connection with the listing of the ordinary shares of the Company on the Stock Exchange were deemed to have been issued since 1 January 2009.

Diluted earnings per share amount equals to basic earnings per share amount. No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2010 in respect of a dilution as the share options of the Company had no dilutive effect on the basic earnings per share amount presented. No adjustment was made to the basic earnings per share amount presented for the year ended 31 December 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during that year.

10. DIVIDEND

	2010	2009
	HK$	*HK$*
Proposed final – HK0.5 cent (2009: HK0.5 cent) per ordinary share	**3,112,500**	3,000,000

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

11. TRADE AND BILLS RECEIVABLES

	Group	
	2010	2009
	HK$	*HK$*
Trade and bills receivables	**189,538,807**	334,686,504
Impairment	**(1,156,799)**	(1,046,162)
	188,382,008	333,640,342

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 90 days or 90 days after month-end statement. 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.

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of HK$1,156,799 (2009: HK$1,046,162) with a carrying amount before provision of HK$1,156,799 (2009: HK$1,077,142). The individually impaired trade receivables relate to customers that were in financial difficulties and none or 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, except for trade receivable of HK$6,552,925 and other receivable of HK$7,454,879 which were secured by inventories of a customer of the Group with an aggregate market value of approximately HK$14,000,000 as at the end of the reporting period.

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	
	2010	2009
	HK$	*HK$*
Current	**136,826,460**	317,061,244
Less than 31 days	**43,715,039**	12,849,858
31 to 60 days	**855,418**	398,882
61 to 90 days	**478,681**	2,568,088
Over 90 days	**6,506,410**	762,270
	188,382,008	333,640,342

12. TRADE PAYABLES

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

	Group	
	2010	2009
	HK$	*HK$*
Within 30 days	**92,199,704**	166,912,980
31 to 60 days	**21,911,203**	75,766,896
Over 60 days	**11,176,967**	50,393,339
	125,287,874	293,073,215

The trade payables are non-interest-bearing and the credit terms generally granted by creditors are 30 to 90 days or 90 days after month-end statement.

13. SHARE CAPITAL

	Number of ordinary shares	**Issued capital**
		HK$
At 1 January 2010	600,000,000	60,000,000
Issue of new shares in connection with the Over-allotment Option *(Note)*	22,500,000	2,250,000
At 31 December 2010	622,500,000	62,250,000

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.

14. RESERVES

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

	2010	2009
	HK$	*HK$*
At beginning of the year	**22,252,901**	(35,933,704)
Profit for the year	**23,023,957**	27,626,404
Other comprehensive income	**315,223**	456,507
Total comprehensive income	**23,339,180**	28,082,911
Share premium arising from issue of new shares in connection with a placing and public offer	**–**	93,000,000
Capitalisation of share premium pursuant to a capitalisation issue	**–**	(44,986,802)
Share premium arising from issue of new shares upon exercise of the Over-allotment Option	**13,950,000**	–
Share issue costs	**(517,457)**	(17,955,434)
Equity-settled share option arrangements	**1,434,295**	–
Final 2009 dividend declared	**(3,112,500)**	–
Waiver of amounts due to related parties	**–**	45,930
At end of the year	**57,346,419**	22,252,901

MANAGEMENT DISCUSSION AND ANALYSIS

General

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

The Group was able to achieve a profit before tax of HK$26.9 million for the year under review as compared to HK$27.4 million in 2009. This result is encouraging and shows the resilience of our design supply chain business model in a year in which the economy was plagued by the Euro crisis. As there were an over-provision of profits tax and tax losses from a subsidiary of the Company in Hong Kong to offset the assessable profits in the prior year, while there were no such events in the year ended 31 December 2010, the profits tax of the Group for 2010 shifted from a tax credit of approximately HK$234,000 to a tax expense of HK$3.9 million. Accordingly, the Group's net profit for the year ended 31 December 2010 recorded an amount of HK$23.0 million as compared to HK$27.6 million in the prior year.

In terms of turnover, the Group recorded an amount of HK$497.7 million for the year 2010 as compared to HK$548.1 million in the year 2009. This was mainly caused by the decrease in sales of goods in the last quarter 2010 as the Group opted to shift the resources in providing project development and management services, which contributed much more significantly to bottom line. We believe that the success of the Group emanates from our superb design supply chain management business model, which attracts customers with our unique technologies and provides customers with total product solution without the need of fixed assets.

The Group has been actively developing new series of products. In the second quarter of 2010, we commenced the sales of GSM mobile modules for industrial use in the South East Asia. These modules can be applied in the manufacture of varies types of communication products. We also had the first shipment of the WiMAX voice-over-internet protocol telephony equipment to operators in Africa in the second quarter of 2010. These moves had demonstrated the Group's ability to provide high-standard mobile communication technology and signalled the Group's first step in the global mobile communication market. In addition, we have successfully launched our new "Live-Lite" series of sports electronics, a growing field in the market, in the third quarter of 2010. These new products represented a good start of our growth drivers in 2011 and we expect that these products will contribute a growing revenue and profit to the Group in the year 2011 as compared to 2010.

In late 2010, the Group has successfully introduced Vulkano, being a place shift multimedia streaming box. These innovative devices allow consumers to watch their home television on their tablets, personal computers and mobile phones anywhere in the world and at high video and audio quality. These boxes represent the Group's first home entertainment device co-developed by us and our business partner. This is one of our examples to demonstrate the success in our superb design supply chain business model where we are able to complement our business partner in launching a sophisticated product. In addition, we have introduced the Android-based mobile Internet devices, which allow the users to enjoy music, pictures, movies and Internet services through Wifi on Android platform. The Android mobile internet devices have been adopted by our major customers which are global leaders in the field. These devices leverage on the increasing popularity of smartphone and tablet users and the readiness of the network for Internet, 3G and Wifi. The Group received very good client response for these new products in the Hong Kong Electronics Fair held in October 2010, and they are expected to be growth drivers of the Group for the year 2011.

In terms of our income breakdown, our revenue from sales of products, royalty fees and income from services contributed approximately 90.5% (2009: 94.0%), 2.6% (2009: 3.6%) and 6.9% (2009: 2.4%), respectively. With the introduction of our GSM mobile phones in the second quarter of 2010, where the goods were mainly delivered to Hong Kong and countries in the South East Asia, and upon requested from certain customers, our revenue from products delivered to Hong Kong and services rendered to customers domiciled/located in Hong Kong increased by 15.3% and represented 36.0% of our total revenue for the current financial year.

FINANCIAL REVIEW

Results of the Group

Turnover

The turnover of the Group for the year ended 31 December 2010 was approximately HK$497.7 million, represented a decrease of approximately 9.2% as compared to the year ended 31 December 2009. The drop was mainly caused by the decrease in sales of goods during the last quarter of 2010 as the Group opted to shift more resources on the rendering of project development and management services, which contributed higher gross profit margin.

Our service income was mainly derived from the provision of project development and management services. The increase in our service income by HK$21.3 million from HK$13.3 million in the year ended 31 December 2009 to HK$34.6 million in the current financial year was mainly contributed by stepping up our sales efforts.

Cost of sales

Cost of sales of the Group decreased by approximately 8.3% from HK$461.5 million for the year ended 31 December 2009 to HK$423.3 million for the year ended 31 December 2010.

Gross profit and margin

The gross profit of the Group for the year ended 31 December 2010 decreased by 14.1%, from approximately HK$86.6 million to HK$74.4 million. The gross profit margin slightly decreased from 15.8% to 15.0 % for the year ended 31 December 2010.

Other income

Other income of the Group decreased by 25.2%, from approximately HK$900,000 for the year ended 31 December 2009 to approximately HK$673,000 for the year ended 31 December 2010, primarily because of the decrease in income from the rendering of marketing and management services during the year ended 31 December 2010.

Research and development costs

Research and development costs directly charged to profit or loss decreased by 52.9% from HK$15.6 million for the year ended 31 December 2009 to HK$7.4 million for the year ended 31 December 2010, primarily due to the increase in capitalisation of research and development costs of our new products, which are expected to contribute considerable amounts of revenue to the Group in the coming years.

Selling and distribution costs

Selling and distribution costs decreased by 25.9% from HK$13.9 million for the year ended 31 December 2009 to HK$10.3 million for the year ended 31 December 2010, primarily resulting from the decrease in revenue and the termination of certain commission arrangements with sales agents after we have established a strong relationship with our customers during the year ended 31 December 2010.

General and administrative expenses

General and administrative expenses increased by approximately 6.2% from HK$26.1 million for the year ended 31 December 2009 to HK$27.8 million for the year ended 31 December 2010, primarily as a result of increase in certain 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

Finance costs decreased by HK$1.3 million, or approximately 33.2%, from HK$3.9 million for the year ended 31 December 2009 to HK$2.6 million, primarily due to the decrease in average balances of our bank loans during the year ended 31 December 2010, which lowered our interest expenses under the same year.

Income tax expense/(credit)

Income tax balance turned from an income tax credit of approximately HK$234,000 in the year ended 31 December 2009 to an income tax expense of HK$3.9 million during the year ended 31 December 2010, which was resulted from 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, where there is no such overprovision in current financial year.

Liquidity and financial resources

	2010	2009
	HK$	*HK$*
		(Restated)
Current assets	**288,074,966**	417,728,341
Current liabilities	**185,835,971**	348,395,368
Current ratio	**1.55**	1.20

The current ratio of the Group improved from 1.20 as at 31 December 2009 to 1.55 as at 31 December 2010 mainly resulting from the tightening of credit policies, which reduced the outstanding amounts from trade debtors and trade creditors as at 31 December 2010. As at 31 December 2010, cash and cash equivalents of the Group amounted to approximately HK$39.5 million (2009: HK$63.1 million), and approximately HK$0.7 million (2009: HK$0.9 million) of which are denominated in Renminbi.

In view of the Group's current level of cash and cash equivalents, 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 need for its operations.

Gearing ratio

	2010	2009
	HK$	*HK$*
Total bank and other borrowings	**55,382,989**	40,267,576
Equity	**119,596,419**	82,252,091
	174,979,408	122,519,667
Gearing ratio	**31.7%**	32.9%

The gearing ratio improved from 32.9% as at 31 December 2009 to 31.7% in the current financial year, which was mainly contributed by increase in equity resulted from the net profits generated in 2010 and the exercise of Over-allotment Option in January 2010.

As at 31 December 2010, the maturity profile of the bank borrowings of the Group falling due within one year, in the second year and in the third to fifth years, inclusive, amounted to approximately HK$46.4 million (2009: HK$35.5 million), HK$3.4 million (2009: HK$1.1 million) and HK$5.6 million (2009: HK$3.7 million), respectively.

Capital structure

The capital of the Group comprises only ordinary shares. As at 31 December 2010, the total number of the ordinary shares of the Group was 622,500,000 shares.

Significant investments

The Group did not have any significant investment plans for the year ended 31 December 2010.

Material acquisitions or disposals

During the reporting period, there was no material acquisition or disposal of subsidiaries and affiliated companies by the Group.

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 were pledged to secure certain banking facilities granted to the Group. There was no charges on the Group's assets as at 31 December 2010.

Future plans for material investments or capital assets

The Group had no specific plans for material investments or capital assets as at 31 December 2010.

Foreign currency exposure

The foreign currency exposure of the Group primarily arises from revenue or income generated, cost and expenses incurred, and certain bank and other borrowings denominated in currencies other than the functional currency of the Group's operating units'. For the Group's operating units that have the United States dollars ("US$") as their functional currency, their foreign currency transactions and the units' monetary assets and liabilities denominated in foreign currencies that were retranslated at the functional currency rates of exchange ruling as at 31 December 2010 were mainly denominated in Hong Kong dollars ("HK$"). 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 31 December 2010, the Group did not have any significant contingent liabilities.

Commitments

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

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010	2009
	HK$	*HK$*
Within one year	**574,112**	767,862
In the second to fifth years, inclusive	**125,620**	200,992
	699,732	968,854

(ii) Capital commitments

The Group had the following capital commitments as at the end of the reporting period:

	2010	2009
	HK$	*HK$*
Contracted, but not provided for leasehold improvement	**718,522**	–

PROSPECTS

The Directors believe that 2011 will be a harvestable year for the efforts that the Group had cultivated in 2010 and in the prior years. The Group expects that the consumer electronics market in Europe and United States will be more stable in the year 2011 and the demand for the existing products, mainly the personal portable entertainment devices, is expected to be steady in the year 2011.

The Group is also poised for the new and high growth areas. In 2010, the Group successfully developed its core technology on Android platform. With our strong research and development team, we are able to apply this core technology to develop varies types of products based on different demands from customers. In addition to the Android-based mobile Internet devices launched in late 2010, the Group also developed its first Android-based mobile phones with 4.3” inch display. The Group has already received its first order of the Android-based mobile phones in January 2011 and first shipment to Europe is expected to be in April 2011.

Besides applying the core technology of Android platform in mobile devices, the Group is developing its first Android-based digital media receiver, which allows users to enjoy pictures, music, videos and Internet services, such as YouTube, on their home televisions. The product acts as another source of multimedia contents for users to enjoy on their televisions. The Group expects this new product to be launched with its first shipment in the second quarter of 2011.

During the last quarter of 2010, the Group has also successfully launched Vulkano, its first place shift multimedia streaming box and the Group received positive feedbacks from the market on this product. The Group will continue to allocate resources to develop this product for enhancing its functionality and enriching its applications. As the gross profit margin of these products is relatively higher than the existing products of the Group, we believe the sales of this product will become one of the main profit stream in the year 2011. The first shipment of the new version of this product to United States is expected to be in the second quarter of 2011.

Recently, the Group has successfully entered into a contract with an international brand customer in the United States and the Group will utilise certain of its “Live-Lite” patents to develop a Bluetooth headset with an infra-red heart rate monitor embedded in the ear bud, which allows the users to measure their heart beats by just one button while they are using the Bluetooth headset at the same time. The first shipment of this new product is expected to be in the third quarter of 2011.

In terms of broadening our market coverage and sales network in the PRC, we target to set up new branch offices in the PRC in the first half of 2011 to expand our sales network and competing power. We believe the upward momentum in the PRC will continue in the future and the Group will benefit from its strong growth.

Our commitment in technologies is evidenced in our 55 patents applications. To date, 25 patents have been granted.

With our strong research and development team, strong base of valuable patents, technology innovation, unique design and unparalleled supply chain service, we are confident that the Group is well positioned for future growth and good prospects in the years ahead.

DIVIDENDS

The Board recommends the payment of a final dividend of HK0.5 cent per ordinary share for the year ended 31 December 2010 (2009: HK 0.5 cent per share), subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on Friday, 6 May 2011. Based on the number of shares in issue, the total payout of the dividend amounts to approximately HK$3.1 million (2009: HK$3.1 million).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 May 2011 to 6 May 2011, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming annual general meeting and the proposed dividends, all transfer 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 2011. The final dividend is payable on or about 31 May 2011 to members whose names appeared in the register on 6 May 2011.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group employed a total of 239 employees (2009: 243). Total staff costs, including Directors' emoluments, amounted to approximately HK$46.6 million for the year under review (2009: approximately HK$43.3 million).

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 past contributions to the Group and motivating them to optimize their future contributions to the Group.

EVENTS AFTER THE REPORTING PERIOD

Continuing Connected Transactions

On 28 January 2011, Perception Digital Limited ("PD"), a wholly-owned subsidiary of the Company, entered into (1) a tenancy agreement with Welleader Group Limited ("Welleader"), a company wholly-owned by Ms. Loh Jiah Yee Katherine ("Ms. Loh"), the spouse of director Dr. Jack Lau, as the landlord for the leasing of an office premises located at 18th floor, Fortis Tower, No.77-79 Gloucester Road, Hong Kong and (2) a sublease agreement with Comose Holdings Limited ("Comose"), a company owed as to 60% by Dr. Wu Po Him Philip ("Dr. Wu"), a former independent non-executive Director, as the lessor and Welleader as the sublessor for the leasing of an office premises located at 21st floor, Fortis Tower, No.77-79 Gloucester Road, Hong Kong. Based on the monthly rent payable by PD to Welleader under the tenancy agreement and the sublease agreement (collectively referred to as the "Two Agreements"), the maximum aggregate annual cap for each of the three years commencing from 28 January 2011 will be HK$3,720,000 (i.e. $1,320,000 under the tenancy agreement and HK$2,400,000 under the sublease agreement).

The aforementioned office premises are used by the Company and certain of its subsidiaries for office use. As Welleader, Ms. Loh, Dr. Jack Lau, Dr. Wu and Comose are connected persons of the Company within the meaning of the GEM Listing Rules, the entering into of the Two Agreements constitute continuing connected transactions for the Company under chapter 20 of the GEM Listing Rules, which are subject to announcement, annual review and reporting requirements, but is exempt from the independent shareholders' approval requirements.

Change of principal business address

On 24 February 2011, the Company announced that the principal place of business of the Company in Hong Kong will be changed to 21st Floor, Fortis Tower, No 77-79 Gloucester Road, Hong Kong with effect from 28 February 2011.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

Comparison of business objectives with actual business progress

An analysis comparing the business objectives as stated in the prospectus of the Company dated 4 December 2009 (the "**Prospectus**") with the Group's actual business progress for the period from 1 January 2010 to 31 December 2010 is set out below:

Business objectives for the period from 1 January 2010 to 31 December 2010 as stated in the Prospectus	Actual business progress up to 31 December 2010
1. Product and technology development	
To enhance and introduce additional features on the "Live-Lite" series products, such as lower power consumption, enhanced G-sensor algorithm, GPS functions, Bluetooth and Wifi and new interface; commence development of algorithm for new application under the "Live-Lite" series which cater for other sports; enhance the Web 2.0 base applications; launch open source-based multimedia Internet devices; and continue development of other open source-based consumer electronics.	During the year ended 31 December 2010, we have successfully launched of our "Live-Lite" series of products with lower power consumption, enhanced G-sensor algorithm, GPS functions. We have also launched the series of products which cater for sports such as cycling and rowing. The development of Web 2.0 base application for social networking support functions had also been completed during the year 2010. The first Android based mobile Internet device of the Group had been launched in the last quarter of the year 2010. The development of the "Live-Lite" series of products with WiFi connectivity and Bluetooth is under progress and is expected to be completed in the second half of 2011. Recently, we have also successfully developed the Android based mobile phone with 4.3" display and the first shipment of this product is expected to be in the April 2011.

Business objectives for the period from 1 January 2010 to 31 December 2010 as stated in the Prospectus	Actual business progress up to 31 December 2010
2. Broadening our market coverage and expansion of our sales network	
To commence sale of products in the PRC and develop domestic sales channels in the PRC; participate in trade fairs and exhibitions in Hong Kong and overseas; and continue discussions with major consumer electronics and fitness equipment OEM and fitness institutions.	During the year, we have started shipment of our modules to the utility sector for applications, such as automatic meter reading devices in the PRC. We target to set up more branch offices in the PRC to expand and develop domestic sales channel. In terms of trade fairs and exhibition, we have participated in the Hong Kong Electronics Fair held in October 2010 and the other trade shows in Europe, the United States and Singapore. In addition, we have contracted certain consumer electronics and fitness equipment OEMs to explore business opportunities.
3. Enhancing our research and development capability	
To continue hiring additional research and development staffs.	During the year 2010, we have hired additional 44 research and development professionals and will continue to expand our research and development team.

Use of proceeds

During the period from the Listing to 31 December 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 the Listing to 31 December 2010	Actual use of proceeds from the Listing to 31 December 2010
Product and technology development	HK$6 million	Approximately HK$5.7 million
Broadening market coverage and expansion of sales network	HK$6 million	Approximately HK$5.0 million
Enhancement of research and development capability	HK$5 million	Approximately HK$4.4 million
Repayment of bank borrowings	HK$38 million	Approximately HK$38 million
Working capital and other general corporate purposes	HK$8 million	Approximately HK$15.8 million *(Note)*

Note: The excess of HK$7.8 million used in working capital was derived from the net proceeds through the exercise of the Over-Allotment Option.

The Company raised a total net proceeds of approximately HK$97.3 million through the Listing and the exercise of the Over-Allotment Option. The proceeds were applied in accordance with the actual development and the remaining proceeds amounting to approximately HK$28.4 million as at 31 December 2010 had been placed as interest bearing deposits in banks in Hong Kong and will be used as intended and as stated in the prospectus.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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.

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 audited financial statements of the Group for the year ended 31 December 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, 17 March 2011

As at the date of this announcement, 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.

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.