

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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2011

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

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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 revenue of approximately HK\$85.6 million for the three months ended 31 March 2011 (2010: approximately HK\$71.4 million).
- The loss attributable to shareholders for the three months ended 31 March 2011 amounted to approximately HK\$2.5 million as compared to net loss of approximately HK\$2.5 million for the corresponding period in 2010.
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2011.

FIRST 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 ended 31 March 2011 together with the comparative figures for the corresponding periods in 2010, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2011

		Three months ended	
		31 March	
	Notes	2011 HK\$ (Unaudited)	2010 HK\$ (Unaudited)
REVENUE	3	85,588,391	71,421,678
Cost of sales		<u>(73,984,778)</u>	<u>(58,953,402)</u>
Gross profit		11,603,613	12,468,276
Other income		259,011	188,727
Research and development costs		(2,300,720)	(4,891,993)
Selling and distribution costs		(3,206,145)	(3,098,325)
General and administrative expenses		(8,414,323)	(6,844,641)
Finance costs	4	<u>(766,016)</u>	<u>(551,738)</u>
LOSS BEFORE TAX		(2,824,580)	(2,729,694)
Income tax credit	5	<u>342,698</u>	<u>233,499</u>
LOSS FOR THE PERIOD		<u>(2,481,882)</u>	<u>(2,496,195)</u>
Attributable to:			
Owners of the parent		<u>(2,481,882)</u>	<u>(2,496,195)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	6	<u>HK(0.4) cents</u>	<u>HK(0.4) cents</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT

For the three months ended 31 March 2011

NOTES:

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 period, 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. BASIS OF PREPARATION

The Group’s unaudited consolidated first 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 consolidated first 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 consolidated first quarterly financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 December 2010.

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 AND OPERATING SEGMENT INFORMATION

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

The following table sets out a breakdown of our revenue for the periods ended 31 March 2011 and 2010.

	Three months ended	
	31 March	
	2011	2010
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Sales of products	80,324,154	59,058,478
Royalty income	880,034	2,066,748
Rendering of services	4,384,203	10,296,452
	<u>85,588,391</u>	<u>71,421,678</u>

Geographical information

The following table presents revenue from external customers for the periods ended 31 March 2011 and 2010 by geographical areas.

	Europe	United States of America	Mainland China	Hong Kong	Others	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Three months ended 31 March 2011						
Revenue from external customers	<u>17,502,308</u>	<u>1,422,505</u>	<u>5,288,754</u>	<u>47,318,183</u>	<u>14,056,641</u>	<u>85,588,391</u>
Three months ended 31 March 2010						
Revenue from external customers	<u>44,497,743</u>	<u>3,029,269</u>	<u>2,372,960</u>	<u>15,856,263</u>	<u>5,665,443</u>	<u>71,421,678</u>

4. FINANCE COSTS

	Three months ended	
	31 March	
	2011	2010
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Interest on bank loans and overdrafts wholly repayable within five years	587,646	358,919
Bank charges	178,370	192,819
	<u>766,016</u>	<u>551,738</u>

5. INCOME TAX

Hong Kong profits tax has been provided at a rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the current period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Three months ended	
	31 March	
	2011	2010
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Current – Hong Kong:		
– Charge for the period	168,093	454,451
Deferred	(510,791)	(687,950)
Total tax credit for the period	(342,698)	(233,499)

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 since 2009 and, accordingly, is entitled to a lower PRC corporate income tax rate of 15%.

6. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$2.5 million (2010: HK\$2.5 million), and the weighted average number of 622,500,000 ordinary shares in issue (2010: 612,833,333 ordinary shares).

No adjustment has been made to the basic loss per share amounts presented for the three months ended 31 March 2011 and 2010 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 both periods.

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2011 (2010: Nil).

8. RESERVES

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

	Three months ended	
	31 March	
	2011	2010
	HK\$	HK\$
	(Unaudited)	(Unaudited)
At beginning of the period	<u>57,346,419</u>	<u>22,252,901</u>
Total comprehensive expenses	(2,266,215)	(2,518,978)
Issue of new shares in connection with an over-allotment option	–	13,950,000
Share issue costs	–	(517,457)
Equity-based share option arrangements	<u>441,634</u>	<u>26,304</u>
At end of the period	<u><u>55,521,838</u></u>	<u><u>33,192,770</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the three months ended 31 March 2011, the revenue of the Group increased by approximately 19.8% from HK\$71.4 million to HK\$85.6 million as compared to the three months ended 31 March 2010. The increase was mainly contributed from the increase in sales of our new versions of personal portable entertainment devices and multimedia Internet devices in March 2011.

The gross profit margin of the Group decreased to 13.6% for the three months ended 31 March 2011, as compared to the gross profit margin of 17.5% recorded for the same period in the prior year. This was mainly resulted from the decrease in royalty income, which commanded relatively higher profit margin, by approximately 57.4%, because more customers had opted to engage our total solutions spanning from design, manufacturing and packaging, instead of solely licensing our technology, and accordingly, the sales of products increased by approximately 36.0% in the current period under review. In addition, as more development projects are expected to complete in the second quarter of 2011, less service income was recognised during the three months ended 31 March 2011 as compared to the same period in the prior year.

In terms of revenue breakdown, our revenue from sales of products, royalty income and income from rendering services contributed approximately 93.9% (2010: 82.7%), 1.0% (2010: 2.9%) and 5.1% (2010: 14.4%), respectively. Upon request from our customers, more products were shipped to Hong Kong during the current period under review, which represented 55.3% (2010: 22.2%) of our revenue.

Financial Review

Turnover

During the three months ended 31 March 2011, the turnover of the Group increased by approximately 19.8% from HK\$71.4 million to HK\$85.6 million. The rise was mainly contributed from the increase in sales of products from HK\$59.1 million for the three months ended 31 March 2010 to HK\$80.3 million, or approximately 36.0%, during the current period under review.

Research and development costs

Research and development costs decreased from HK\$4.9 million during the three months ended 31 March 2010 to HK\$2.3 million, which represented a decrease of approximately 53.0%, during the three months ended 31 March 2011. The decrease was mainly attributable to the increase in the capitalisation of development costs of our new products, which are expected to contribute considerable amount of revenue to the Group in the foreseeable future.

Selling and distribution costs

During the three months ended 31 March 2011, the Group recorded the selling and distribution costs of HK\$3.2 million, which is comparable to the amount incurred during the corresponding period in last year.

General and administrative expenses

During the three months ended 31 March 2011, the general and administrative expenses increased by approximately 22.9% to HK\$8.4 million from HK\$6.8 million as recorded in the three months ended 31 March 2010. The increase in the current period under review was attributed to the increase in staff salaries and share option expense in relation to the share options granted on 26 March 2010.

Finance costs

The finance costs during the three months ended 31 March 2011 amounted to HK\$0.8 million, which represented an increase of approximately 38.8% as compared to HK\$0.6 million as recorded in the corresponding period in last year. This was because more banking facilities were utilised to cope with the expansion of the business operation of the Group during the current period under review.

Income tax credit

The Group recorded an income tax credit of HK\$0.3 million during the three months ended 31 March 2011, which represented an increase of 46.8% as compared to HK\$0.2 million as recorded in the corresponding period in last year. The increase was mainly attributable to more income tax expense from a subsidiary of the Company was charged in the three months ended 31 March 2010 to offset the income tax credit.

Outlook

The Group has successfully shipped its first order of Android mobile phones in April 2011 and we believe this will become one of our main profit stream in year 2011. We will continue to develop new products under Android platform such as digital media receiver, which allows users to enjoy pictures, music and Internet services on their home televisions. This product is under development and is expected to launch in the second quarter of this year.

In addition, Vulkano, being our first place shift multimedia streaming box, was launched in last quarter of 2010 and the first shipment to the United States is expected to be in the second quarter of 2011. We have further extended our distribution channel through certain computer centres in Hong Kong in March 2011. We will continue to develop new version of this product and it is expected to launch in second half of 2011.

With our strong research and development team, technology innovation and new products to be launched in this year, we believe 2011 will be a harvestable year to the Group and we are confident that the Group is well positioned for future growth in the years ahead.

DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2011 (2010: Nil).

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

As at 31 March 2011, 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. Tao Hong Ming ("Mr. Tao")		Beneficial owner	300,000	0.05%
		Share options	1,000,000	0.16%
			1,300,000	0.21%
Prof. Cheng, Shu Kwan Roger ("Prof. Cheng")	(b)	Interest of controlled corporation	2,976,655	0.48%
Prof. Tsui, Chi Ying ("Prof. Tsui")	(c)	Interest of controlled corporation	11,903,210	1.91%
			<u>197,495,902</u>	<u>31.73%</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. Masteray is owned as to 100% by Sea Progress Limited ("Sea Progress"), which, through a discretionary trust, is wholly-owned by Credit Suisse Trust Limited ("Credit Suisse"). Ms. Loh is the founder of a discretionary trust holding 179,421,037 Shares by Credit Suisse, and hence she is deemed to be interested in 181,316,037 Shares. Dr. Lau is deemed to be interested in all the Shares held by Ms. Loh.
- (b) 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.
- (c) 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 31 March 2011, 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 31 March 2011, 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	(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>
Sea Progress	(b)	Beneficial owner	179,421,037	28.82%
Ms. Loh	(c)	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>
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	<u>54,196,943</u>	<u>8.71%</u>

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) Masteray is owned as to 100% by Sea Progress, which, through a discretionary trust, is wholly-owned by Credit Suisse.
- (c) Ms. Loh is the founder of a discretionary trust holding 179,421,037 Shares by Credit Suisse and hence is deemed to be interested in all the Shares held thereof.
- (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 31 March 2011, 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 31 March 2011, share options to subscribe for an aggregate of 14,740,000 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 2010 annual report of the Company.

Details of the share options outstanding as at 31 March 2011 under the Scheme are as follows:

Name or category of participant	Number of share options				At 31 Mar 2011	Exercise Price (HK\$)	Date of grant	Exercise Period
	At 1 Jan 2011	Granted during the period	Exercised during the period	Cancelled/lapsed during the period				
Director								
Mr. Tao	1,000,000	–	–	–	1,000,000	HK\$0.7	26-3-2010	(a)
Continuous contract employees								
employees	12,280,000	–	–	140,000	12,140,000	HK\$0.7	26-3-2010	(a)
Other participate								
Consultants	1,600,000	–	–	–	1,600,000	HK\$0.7	26-3-2010	(a)
	<u>14,880,000</u>	<u>–</u>	<u>–</u>	<u>140,000</u>	<u>14,740,000</u>			

Notes:

- (a) Of the 14,740,000 share options, 3,685,000 share options will be exercisable during the period from 26 March 2011 to 25 March 2012, 3,685,000 share options will be exercisable during the period from 26 March 2012 to 25 March 2013, and 7,370,000 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 three months ended 31 March 2011, the Directors are not aware of any business or interest for the Directors 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 31 March 2011. 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 three months ended 31 March 2011.

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. 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. 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 three months ended 31 March 2011 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 May 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.