Perception Digital Holdings Limited

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

Stock Code: 1822

Annual Report 2013

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Corporate Information

Directors

Executive Directors

Mr. Mung, Wai Ming *(appointed on 8 May 2013)*
(Chairman)
Dr. Lau, Jack *(resigned on 29 June 2013)*
Mr. Tao, Hong Ming *(resigned on 1 February 2013)*
Ms. Liu, Yee Nee *(appointed on 15 May 2013)*
Mr. Lee, Rabi *(appointed on 19 July 2013)*

Non-executive Directors

Prof. Cheng, Roger Shu Kwan *(resigned on 19 July 2013)*
Prof. Tsui, Chi Ying *(resigned on 19 July 2013)*

Independent Non-executive Directors

Dr. Lam Lee, Kiu Yue Alice Piera
(resigned on 25 March 2013)
Prof. Chin, Tai Hong Roland *(resigned on 16 May 2013)*
Mr. Shu, Wa Tung Laurence *(resigned on 7 May 2013)*
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*
Mr. Ng, Wai Hung *(appointed on 7 January 2013)*
Ms. Zhou, Jing *(appointed on 8 May 2013)*

Company Secretary

Mr. Lee, Rabi

Compliance Officer

Dr. Lau, Jack *(resigned on 29 June 2013)*

Authorised Representatives

Dr. Lau, Jack *(resigned on 29 June 2013)*
Mr. Mung, Wai Ming *(appointed on 29 June 2013)*
Mr. Lee, Rabi

Audit Committee

Ms. Zhou, Jing *(Chairman, appointed on 8 May 2013)*
Mr. Shu, Wa Tung Laurence
(Chairman, resigned on 7 May 2013)
Dr. Lam Lee, Kiu Yue Alice Piera
(resigned on 25 March 2013)
Prof. Chin, Tai Hong Roland *(resigned on 16 May 2013)*
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*
Mr. Ng, Wai Hung *(appointed on 7 January 2013)*

Nomination Committee

Mr. William Keith Jacobsen
(Chairman, appointed on 25 March 2013)
Dr. Lam Lee, Kiu Yue Alice Piera
(Chairman, resigned on 25 March 2013)
Prof. Chin, Tai Hong Roland *(resigned on 16 May 2013)*
Mr. Shu, Wa Tung Laurence *(resigned on 7 May 2013)*
Mr. Ng, Wai Hung *(appointed on 7 January 2013)*
Ms. Zhou, Jing *(appointed on 8 May 2013)*

Remuneration Committee

Mr. Ng, Wai Hung
(Chairman, appointed on 16 May 2013)
Prof. Chin, Tai Hong Roland
(Chairman, resigned on 16 May 2013)
Dr. Lam Lee, Kiu Yue Alice Piera
(resigned on 25 March 2013)
Mr. Shu, Wa Tung Laurence *(resigned on 7 May 2013)*
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*
Ms. Zhou, Jing *(appointed on 8 May 2013)*

Hong Kong Share Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Website

www.perceptiondigital.com

Stock Code

01822

Principal Bankers

Shanghai Commercial Bank Limited
Hang Seng Bank Limited

Auditors

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

Unit 311, 3rd Floor Core Building 1
No. 1 Science Park East Avenue
Hong Kong Science Park
Pak Shek Kok
New Territories
Hong Kong

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

During the year 2013, the management had put tremendous effort in streamlining the Group's operation flows, focusing on core product development on our 3BaysGSA and implementing certain cost-saving measures. Our 3BaysGSA was proven to be well accepted by the market and we successfully launched the product on the Apple Stores in the United States, Canada and Europe. With the increase in sales portion of our 3BaysGSA, which have a much higher profit margin than our other products, and the decrease in the overall operating expenses resulted from the cost-saving measures in the year 2013, the Group had narrowed down its net loss during the year 2013.

I would like to take this opportunity to thank our staff, shareholders and other stakeholders for their continued support to the Group. The Group will continue to make its best effort to enhance the shareholders' value.

Management Discussion and Analysis

GENERAL

The Group is principally engaged in the research, design, development and sale of DSP based consumer electronic devices/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the trading of electronic components.

BUSINESS REVIEW

During the year under review, revenue of the Group decreased by approximately 41.3% to approximately HK$200.0 million from HK$340.9 million as recorded in the year ended 31 December 2012. The decrease was mainly attributable to the decrease in sales of goods by 42.6% from approximately HK$337.2 million in last year to approximately HK$193.5 million during the year ended 31 December 2013, which was mainly because of the change in product mix in the current year where the Group has been focusing on the promotion and sale of our golf swing analyser ("3BaysGSA"), which was launched in the second half of 2012 with much higher profit margin than the traditional products of the Group.

The overall gross profit of the Group during the current year was approximately HK$20.6 million, which decreased by approximately 19.3% as compared to the gross profit in last year. However, the gross profit margin increased by approximately 2.8 percentage point from 7.5% to 10.3%. This was mainly contributed by the increase in sale of the 3BaysGSA, which commanded a higher profit margin than other products of the Group.

During the year ended 31 December 2013, the net loss of the Group narrowed down to approximately HK$65.2 million from HK$96.6 million as recorded in last year, mainly because of (i) the decrease in operating expenses by approximately 49.7% from approximately HK$87.7 million in last year to approximately HK$44.1 million in the current year after the implementation of certain cost-saving measures (the "Cost-Saving Measures"), including but not limited to (a) streamline the operation flows and focus on core product development; (b) centralised our employees in Hong Kong from two office premises to one office premises; and (c) tightening our cost control policies on various expenditures in 2013; and (ii) the increase in other expenses resulted from impairment of certain trade and other receivables amounted to approximately HK$38.7 million.

In terms of revenue breakdown, during the current year under review, our revenue from sales of goods, royalty fees and income from rendering of services contributed approximately 96.7% (2012: 98.9%), Nil% (2012: 0.1%) and 3.3% (2012: 1.0%), respectively.

In terms of the financial position of the Group, the net assets of the Group had been eroded by the unfavourable economic environment in the past two years. During the year ended 31 December 2013, the Group has been actively exploring opportunities to enhance the capital base and financial position of the Group. By way of fund raising exercises, the Group successfully raised funds of over approximately HK$69.8 million from the open offer (the "Open Offer I") and the placing (the "Placing") during the year ended 31 December 2013, and an amount of approximately HK$67.2 million from an open offer of shares of the Company (the "Open Offer II") subsequent to the end of the reporting period in January 2014. These funds have significantly strengthened the financial position and enhanced the liquidity of the Group.

PROSPECTS

With the Cost-Saving Measures and other value-adding measures implemented by the Group since the second half of 2012, the Group was able to minimise the operating expenses during the year ended 31 December 2013 as well as decrease the net loss for the year ended 31 December 2013. As mentioned above, the operating expenses of the Group decreased by 49.7% from HK$87.7 million to HK$44.1 million in the current year. The Group then successfully narrowed down the net loss for the year by 32.5% from approximately HK$96.6 million for the year ended 31 December 2012 to approximately HK$65.2 million for the year ended 31 December 2013.

During the year ended 31 December 2013, the Group had been focusing on promoting and marketing the 3BaysGSA, which embedded a 3 axial G-sensor and Gyroscope sensor to capture more than 10,000 data points per swing and shows the results, including the club head speed, tempo, face angle and review of swing arc immediately on an *Android OS* or *iOS* product through *Bluetooth* communications, so as to help the golfers to practise a constant and better swing. The 3BaysGSA was proven to be well accepted by the market and we received many positive feedbacks, especially from the golf coaches. Furthermore, other than worldwide sports outlets and online stores, the Group successfully launched the 3BaysGSA on the *Apple Stores* in the United States, Canada and Europe during the year ended 31 December 2013.

Looking forward, the Group will continue to enhance the functionalities of the 3BaysGSA and explore new sales channels worldwide. With the success of the 3BaysGSA, the Group will also allocate resources on developing other sports activity analysers by utilising its unique sensor technology. On the other hand, in order to enhance the popularity of the Group's products, the Group is also considering to build up and promote its own brand "3Bays" in the coming year. In view of the successful streamlining of business operations, focusing on core product development and the funds raised from the Open Offer II recently, which strongly enhanced the Group's capital base and financial position, the management believes the Group can cope with the upcoming challenges and 2014 will be a year of further improvement for the Group.

EVENTS AFTER REPORTING PERIOD

(1) On 20 August 2013, the Company issued a circular, pursuant to which, the Company proposed (i) a capital reduction to reduce each of the paid-up capital of the Company from HK$0.1 to HK$0.01 per share by cancelling paid-up capital of HK$0.09 per share (the "Capital Reduction") and the credit arising from the Capital Reduction be applied towards the cancelling of the accumulated deficit of the Company; and (ii) a sub-division to sub-divide each of the authorised but unissued ordinary shares of the Company with a par value of HK$0.1 each into 10 unissued ordinary shares of the Company with a par value of HK$0.01 each (the "Sub-division"). Subsequent to the end of the reporting period, on 20 January 2014, the Company announced that all the conditions precedent for the implementation of the Capital Reduction and Sub-division had been fulfilled and the Capital Reduction and Sub-division became effective on 20 January 2014 (after market close) (Hong Kong time).

(2) Subsequent to the end of the reporting period, on 3 January 2014, the Company issued a prospectus pursuant to which, the Company proposed the Open Offer II to issue 1,344,600,000 ordinary shares of the Company (the "Offer Shares") to its existing shareholders on the basis of six offer shares for every five existing shares at a subscription price of HK$0.05 per offer share. The Open Offer II was conditional upon, among other things, the completion of the Capital Reduction as mentioned above. Pursuant to an announcement of the Company dated 24 January 2014, the Open Offer II became unconditional and the dealing of the offer shares was commenced on 28 January 2014. The Company raised net proceeds of approximately HK$64.9 million from the Open Offer II.

FINANCIAL REVIEW

Results of the Group

Turnover

The turnover of the Group for the year ended 31 December 2013 was approximately HK$200.0 million, represented a decrease of approximately 41.3% as compared to the year ended 31 December 2012. The decrease was mainly attributable to the decrease in sales of products by 42.6% as compared to last year.

Cost of sales

Cost of sales of the Group decreased by approximately 43.1% from approximately HK$315.3 million for the year ended 31 December 2012 to approximately HK$179.4 million for the year ended 31 December 2013.

Gross profit and margin

The Group recorded a gross profit of approximately HK$20.6 million for the year ended 31 December 2013, representing a decrease of approximately 19.3% as compared to the gross profit recorded in last year. However, the gross profit margin increased by approximately 2.8 percentage point from 7.5% in last year to 10.3% in the current year under review. The increase was resulted from the increase in sales of our 3BaysGSA launched in 2012, which had higher profit margin than the traditional products.

Other income

Other income of the Group decreased by 21.5%, from approximately HK$1.4 million for the year ended 31 December 2012 to approximately HK$1.1 million for the year ended 31 December 2013. The decrease was mainly resulted from the decrease in government subsidies obtained during the current year.

Research and development costs

Research and development costs decreased by 78.4% from approximately HK$23.7 million for the year ended 31 December 2012 to approximately HK$5.1 million for the year ended 31 December 2013, mainly due to the decrease in the number of research and development projects after the implementation of the Cost-Saving Measures during the year ended 31 December 2013.

Selling and distribution expenses

Selling and distribution expenses increased by 21.4% from approximately HK$16.2 million for the year ended 31 December 2012 to approximately HK$12.7 million for the year ended 31 December 2013, primarily resulting from the Cost-Saving Measures implemented in the year ended 31 December 2013.

General and administrative expenses

General and administrative expenses decreased by approximately 50.7% from approximately HK$39.3 million for the year ended 31 December 2012 to approximately HK$19.4 million for the year ended 31 December 2013, primarily as a result of the Cost-Saving Measures which were implemented during the year ended 31 December 2013.

Other expenses, net

Other expenses, net, for the year ended 31 December 2013 increased by approximately 15.3% to approximately HK$42.9 million as compared to approximately HK$37.2 million in the last financial year, which was mainly resulted from the increase in the impairment of trade and other receivables amounting to approximately HK$21.4 million, based on the expected amounts to be recovered.

Finance costs

Finance costs significantly decreased by approximately 19.9% from approximately HK$8.6 million for the year ended 31 December 2012 to approximately HK$6.9 million, which was mainly resulted from the full repayment of bank borrowings in the second half of 2013.

Income tax credit

No provision for Hong Kong profits tax has been made for the year ended 31 December 2013 as there was no assessable profits arising in Hong Kong generated by the Group during the current year. The deferred tax credit for the year represented a net decrease in taxable temporary differences.

Liquidity and financial resources

	2013 HK$	2012 HK$
Current assets	**130,435,037**	208,242,405
Current liabilities	**128,992,990**	198,907,729
Current ratio	**1.01**	1.05

The current ratio of the Group as at 31 December 2013 is comparable to the ratio as at 31 December 2012. As at 31 December 2013, cash and cash equivalents of the Group amounted to approximately HK$26.1 million (2012: HK$43.2 million), and approximately HK$0.5 million (2012: HK$10.3 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 from the Open Offer I, the Placing and the Open Offer II, the Board is confident that the Group will have sufficient financial resources to meet its debt repayment and financing needs for its operations for the foreseeable future.

Gearing ratio

	2013 HK$	2012 HK$
Total bank and other borrowings	**43,630,795**	137,036,232
Equity	**13,679,463**	8,793,534
	57,310,258	145,829,766
Gearing ratio	**76.1%**	94.0%

The gearing ratio decreased from 94.0% as at 31 December 2012 to 76.1% as at 31 December 2013, primarily due to the full repayment of bank borrowings during the year.

As at 31 December 2013, the maturity profile of the bank and other 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$31.3 million (2012: HK$92.1 million), HK$12.3 million (2012: HK$44.1 million) and Nil (2012: HK$0.8 million), respectively.

Capital structure

The capital of the Company comprises only ordinary shares. As at 31 December 2013, the total number of the ordinary shares of the Company was 1,120,500,000 shares. Subsequent to the issue of the 1,344,600,000 Offer Shares in January 2014, the total number of ordinary shares of the Company was increased to 2,465,100,000.

Significant investments

The Group did not have any significant external investment plans for the year ended 31 December 2013.

Material acquisitions or disposals

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

Future plans for material investments or capital assets

The Group had no specific plans for material external investments or capital assets as at 31 December 2013.

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 United States dollar ("US$") as their functional currency, their foreign currency transactions and the units' monetary assets and liabilities denominated in foreign currencies that were translated at the functional currency rates of exchange ruling as at 31 December 2013 were mainly denominated in Hong Kong dollars ("HK$"). As the HK$ is pegged to the US$ 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 2013 and 2012, the Group did not have any significant contingent liabilities.

DIVIDENDS

The Board does not recommend the payment of any final dividend for the year ended 31 December 2013 (2012: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 May 2014 to 29 May 2014, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming annual general meeting, 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 (to be moved to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration not later than 4:00 p.m. on 26 May 2014.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2013, the Group employed a total of 27 (2013: 120) employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$19.9 million for the year under review (2012: approximately HK$57.6 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.

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Mung, Wai Ming, aged 49, is the Chairman of the Company and has more than 20 years' experience in property and car park management. He has accumulated extensive concept in the operation management from his operation in different industries. Mr. Mung worked in various industries including property trading, financing, wedding witnesses, club management, car park operation and foot massage etc. Mr. Mung is the chairman of Eli Car Park Ltd. and director of Pure Massage Group Ltd. He devotes himself in charity and was elected as the member of the sixth standing committee of the Overseas Congress of Yue Xiu District of Guangzhou, member of the forth standing committee of the Overseas Congress of Qingxin District of Qingyuan, member of Friends of Qing Yuan Association (H.K.) Ltd. and founding chairman of International Industry and Commerce Experts Association Ltd. Currently, Mr. Mung is the executive director of Sustainable Forest Holdings Limited (stock code: 723).

Ms. Liu, Yee Nee, aged 47, holds a master degree of Business Administration from the Hong Kong University of Science and Technology and also a master degree of Laws in Chinese Business Law from the Open University of Hong Kong. She is a member of the Chartered Institute of Management Accountancy, the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, The Institute of Chartered Secretaries & Administrators and the Hong Kong Institute of Company Secretaries. She has over 25 years experience in the field of accounting and management. She was an executive director of Talent Property Group Limited (Stock code: 760) and resigned on September 2011. She was a non-executive director of King Stone Energy Group Limited (Stock code: 663) and resigned on July 2010.

Mr. Lee, Rabi, aged 40, is the Finance Director and Company Secretary of the Company. He joined the Group as the Senior Manager of the Corporate Finance Department in December 2008. He graduated from City University of Hong Kong with a Bachelor's degree in Accountancy in November 1997 and has been a member of the HKICPA since January 2001. Prior to joining the Group, he worked in Ernst & Young from September 1997 to November 2008 where he acquired auditing experience in various industries, including property development, marine transportation and manufacturing. He was a Senior Manager when he left Ernst & Young in November 2008.

Independent Non-executive Directors

Mr. Ng, Wai Hung, aged 49, was appointed as an independent non-executive Director on 7 January 2013. He is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors. Mr. Ng practises in the areas of securities law, corporate law and commercial law in Hong Kong. Mr. Ng is also an independent non-executive director of six companies listed on The Stock Exchange of Hong Kong Limited, namely Fortune Sun (China) Holdings Limited (stock code: 352), Gome Electrical Appliances Holding Limited (stock code: 493), Hycomm Wireless Limited (stock code: 499), Trigiant Group Limited (stock code: 1300), Sustainable Forest Holdings Limited (stock code: 723) and Tech Pro Technology Development Limited (stock code: 3823). Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited, stock code: 663), KTP Holdings Limited (currently known as Ares Asia Limited, stock code: 645) and Tomorrow International Holdings Limited (currently known asTalent Property Group Limited (stock code: 760) and resigned in February 2010, February 2011 and January 2012, respectively.

Mr. William Keith Jacobsen, aged 47, was appointed as an independent non-executive Director on 7 January 2013. He is the managing director of a licensed corporation to advise on corporate finance matters. Mr. Jacobsen has more than 20 years of experience in corporate finance and business development. Mr. Jacobsen is an executive director of Auto Italia Holdings Limited (formerly known as Wo Kee Hong (Holdings) Limited, stock code: 720) and is also an independent non-executive director of Hycomm Wireless Limited (stock code: 499), abc Multiactive Limited (stock code: 8131), China Financial Leasing Group Limited (stock code: 2312) and Sustainable Forest Holdings Limited (stock code: 723). He was also an independent non-executive director of King Stone Energy Group Limited (stock code: 663) for the period from 26 September 2008 to 30 September 2011.

Ms. Zhou, Jing, aged 38, graduated from a university in the PRC with a bachelor's degree majoring in accounting. Ms. Zhou was awarded with Certified Public Accountant qualification in the PRC in 2002. Ms. Zhou worked in an imports and exports company responsible for foreign trade accounting. Ms. Zhou has also joined an accountant firm as a shareholder and carries out her duties in auditing and asset valuation. Ms. Zhou has more than 10 years' experience in international trade accounting and corporate financial management. Ms. Zhou was an executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited) (stock code: 663), and resigned in February 2010. Currently, Ms Zhou is the chairman and an executive director of Sustainable Forest Holdings Limited (stock code: 723).

Senior Management

Mr. Cheng, Lap Hing, Martin, aged 45, our Director of project management, joined our Group in September 2001 as a Product Engineering Manager. He was promoted to his current position in January 2011. Prior to joining our Group, Mr. Cheng was an Engineering Design Manager from March 1999 to September 2001 at Vtech Communications Limited, responsible for production support, customer support and new product development. Prior to that, he was a Manager of R&D, responsible for setting up a research and development department in the PRC, from April 1997 to March 1999 at Surface Mount Technology International Limited, where he started his career in April 1991. Mr. Cheng graduated from the Hong Kong Polytechnic University in November 1991 with a Higher Diploma in Electronic Engineering, from the University of London in 1999 with a Bachelor of Science (Hons) degree in Computing and Information System, and from the Open University of Hong Kong in 2008 with a Bachelor of Science (Hons) degree in Electronics.

Ms. Wong, Yin Mei, Venus, aged 34, our Managing Director, is responsible for sales and marketing activities, customer service and product development. She joined our Group in November 2005 as Project Marketing Manager. Ms. Wong has about 10 years of working experience in both technical marketing and management in the electronics industry. Before joining our Group, Ms. Wong was a marketing assistant in JD Rising Company. She was subsequently employed by Beijing Design & Creation (Hong Kong) Co. Ltd. in May 2002, responsible for technical marketing, IP licensing, design service and business development. She was the Marketing Manager when she left Beijing Design & Creation (Hong Kong) Company Limited. Ms. Wong graduated from The University of Hong Kong with a Bachelor Degree in Management Studies and from HKUST with a Master of Science in Engineering Enterprise Management.

Corporate Governance Report

The Board is pleased to present this corporate governance report for the year ended 31 December 2013. This report highlights the key corporate governance practices of the Company.

Corporate Governance Practices

The Company acknowledges the importance of good corporate governance practices and procedures and regards a pre-eminent board of directors, sound internal controls and accountability to all shareholders as the core elements of its corporate governance principles. The Company endeavours to ensure that its businesses are conducted in accordance with rules and regulations, and applicable codes and standards. The Company has adopted the Code Provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board reviews at least annually the corporate governance practices of the Company to ensure its continuous compliance with the Code, and make appropriate changes if considered necessary. The Company was in compliance with the applicable code provisions in the Code (the "Code Provision") for the year ended 31 December 2013. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

Board

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

As at 31 December 2013, the Board comprises three executive Directors and three independent non-executive Directors (the "INEDs"). During the year ended 31 December 2013, the Board held four meetings.

During the year, the attendance of each Director is set out below:

Directors	Attendance
Executive Directors	
Dr. Lau, Jack *(resigned on 29 June 2013)*	2/2
Mr. Tao, Hong Ming *(resigned on 1 February 2013)*	0/0
Mr. Mung, Wai Ming *(appointed on 8 May 2013)*	2/2
Ms. Liu, Yee Nee *(appointed on 15 May 2013)*	2/2
Mr. Lee, Rabi *(appointed on 19 July 2013)*	2/2
Non-Executive Directors	
Prof. Cheng, Roger Shu Kwan *(resigned on 19 July 2013)*	2/2
Prof. Tsui, Chi Ying *(resigned on 19 July 2013)*	2/2
Independent Non-Executive Directors	
Dr. Lam Lee, Kiu Yue Alice Piera *(resigned on 25 March 2013)*	0/0
Prof. Chin, Tai Hong Roland *(resigned on 16 May 2013)*	1/1
Mr. Shu, Wa Tung Laurence *(resigned on 7 May 2013)*	1/1
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*	4/4
Mr. Ng, Wai Hung *(appointed on 7 January 2013)*	4/4
Ms. Zhou, Jing *(appointed on 8 May 2013)*	3/3

During the year, the Non-Executive Directors (a majority of whom are independent) provided the Company with a wide range of expertise and a balance of skills and brought independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and Committee meetings. Throughout the year and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules. The former Rule requires that every board of directors of a listed issuer must include at least three INEDs and the latter Rule requires that at least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise. All INEDs also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules. Further, up to the date of this Report, the Board has not been aware of the occurrence of any events which would cause it to believe that their independence has been impaired.

The Company has received from each Independent Non-Executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent. The Independent Non-Executive Directors are explicitly identified in all corporate communications. The day-to-day running of the Company is delegated to the management.

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the day-to-day responsibility to the executive management. The respective functions of the Board and management of the Company have been formalised and set out in writing and will be reviewed by the Board from time to time to ensure that they are consistent with the existing rules and regulations.

Regular Board meetings each year are scheduled in advance to facilitate maximum attendance of Directors. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before being tabled at the following Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Directors' Induction and Continuous Professional Development

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organised by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills. From time to time, Directors are provided with written training materials to develop and refresh their professional skills.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the year ended 31 December 2013:

Directors	Corporate Governance, Regulatory Development and Trainings on other relevant topics
Executive Directors	
Mr. Mung, Wai Ming	✔
Ms. Liu, Yee Nee	✔
Mr. Lee, Rabi	✔
Independent Non-Executive Directors	
Ms. Zhou, Jing	✔
Mr. William Keith Jacobsen	✔
Mr. Ng, Wai Hung	✔

Non-Executive Directors

All the Independent Non-Executive Directors were appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

Committees

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

Remuneration Committee

The Company established a remuneration committee on 27 November 2009 with written terms of reference. As at 31 December 2013, the remuneration committee comprises three INEDs, namely Ms. Zhou, Jing, Mr. William Keith Jacobsen and Mr. Ng, Wai Hung. The committee is chaired by Mr. Ng, Wai Hung.

The primary duties of the remuneration committee are formulating remuneration policies, determining the specific remuneration packages of executive Directors and senior management and making recommendations to the Board on the remuneration of non-executive Directors. During the year ended 31 December 2013, the remuneration committee reviewed and made recommendation on the remuneration packages of the existing Directors, the newly appointed Directors and the senior management.

During the year, one Remuneration Committee meeting was held and the attendance of each member is set out below:

Remuneration Committee	Attendance
Prof. Chin, Tai Hong Roland *(Chairman, resigned on 16 May 2013)*	1/1
Dr. Lam Lee, Kiu Yue Alice Piera *(resigned on 25 March 2013)*	0/0
Mr. Shu, Wa Tung Laurence *(resigned on 7 May 2013)*	1/1
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*	1/1
Mr. Ng, Wai Hung *(Chairman, appointed on 16 May 2013)*	1/1
Ms. Zhou Jing *(appointed on 8 May 2013)*	0/0

Remuneration of Directors and Senior Management

Pursuant to the code provision B.1.5 of the Code, the remuneration of the members of senior management by band for the year ended 31 December 2013 is set out below:

	Number of individuals
Nil – HK$1,000,000 *(Note)*	7

Note: Included the remuneration payable to five members of senior management who resigned during the year.

Further details in relation to Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements, respectively.

Nomination Committee

The Company established a nomination committee on 27 November 2009 with written terms of reference. As at 31 December 2013, the nomination committee comprises three INEDs, namely Ms. Zhou, Jing, Mr. William Keith Jacobsen and Mr. Ng, Wai Hung. The committee is chaired by Mr. William Keith Jacobsen.

The primary duties of the nomination committee are reviewing the structure, size and composition of the Board, formulating relevant procedures for nomination of directors, identifying qualified individuals to become members of the Board and making recommendation to the Board on the appointment or re-appointment of directors. During the year ended 31 December 2013, the nomination committee reviewed the composition of the Board, the profiles of the candidates to be appointed as new Directors and made recommendation to the Board.

During the year, one Nomination Committee meeting was held and the attendance of each member is set out below:

Nomination Committee	Attendance
Dr. Lam Lee, Kiu Yue Alice Piera *(Chairman, resigned on 25 March 2013)*	0/0
Prof. Chin, Tai Hong Roland *(resigned on 16 May 2013)*	1/1
Mr. Shu, Wa Tung Laurence *(resigned on 7 May 2013)*	1/1
Mr. William Keith Jacobsen *(Chairman, appointed on 25 March 2013)*	1/1
Mr. Ng, Wai Hung *(appointed on 7 January 2013)*	1/1
Ms. Zhou Jing *(appointed on 8 May 2013)*	0/0

Audit committee

The Company established an audit committee on 27 November 2009. As at 31 December 2013, the audit committee comprises three independent non-executive Directors, namely Ms. Zhou, Jing, Mr. William Keith Jacobsen and Mr. Ng, Wai Hung. The committee is chaired by Ms. Zhou, Jing. 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 2013 have been reviewed by the audit committee.

During the year ended 31 December 2013, the audit committee reviewed the internal control system, as well as the interim and annual results of the Group, which, in the opinion of the audit committee, were prepared in compliance with the applicable accounting standards and the Listing Rules.

During the year, two Audit Committee meetings were held and the attendance of each member is set out below:

Audit Committee	Attendance
Mr. Shu, Wa Tung Laurence *(Chairman, resigned on 7 May 2013)*	1/1
Dr. Lam Lee, Kiu Yue Alice *(resigned on 25 March 2013)*	0/0
Prof. Chin, Tai Hong Roland *(resigned on 16 May 2013)*	1/1
Ms. Zhou, Jing *(Chairman, appointed on 8 May 2013)*	1/1
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*	2/2
Mr. Ng, Wai Hung *(appointed on 7 January 2013)*	2/2

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company periodically issues notices to the 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 Model Code throughout the period under review.

Directors' Responsibility for Financial Statements

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

Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2013 is set out in the section "Independent Auditors' Report" of this annual report.

The Group's external auditors provided the following services to the Group for the year ended 31 December 2013:

	HK$
Audit services	780,000

Internal Control

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

The audit committee reviewed the overall effectiveness of the internal control system and reported its findings and made recommendations to the Board. The Directors have conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2013. The Board will continue to assess the effectiveness of internal controls by considering reviews performed by the audit committee and executive management.

Shareholders' Rights

Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM")

Pursuant to the Articles of Association of the Company, any one or more members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and the meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board will be reimbursed to the requisitionist(s) by the Company.

Communication with Shareholders and Procedures for Putting forward Proposals at a General Meeting

All published information, including all the statutory announcements and press releases, is promptly posted on the Group's website at http//www.perceptiondigital.com. Shareholders can also send enquiries to the Board or the Company Secretary, and/or proposals to be put forward at shareholders' meeting for shareholders' consideration by email at sales@perceptiondigital.com or directly by raising questions at the annual general meeting of the Company.

Investor Relations

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

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

Company Secretary

The Company Secretary of the Company, Mr. Lee, Rabi, was appointed on 30 April 2011. He is a full time employee of the Company and has day-to-day knowledge of the Company. The Company Secretary is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training.

Report of the Directors

The directors of the Company (the "Directors") hereby present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2013.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results

The Group's loss for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 109.

Closure of Register of Members

The register of members of the Company will be closed from 27 May 2014 to 29 May 2014, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming annual general meeting, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 26 May 2014.

Sufficiency of Public Float

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

Share Capital, Share Options and Warrants

Details of movements in the Company's share capital, warrants, and share options during the year are set out in notes 25 and 26 to the financial statements.

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.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 110. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

Pre-emptive Rights

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2013, there is no Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of Cayman Islands' legislation (2012: Nil).

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 84.7% of the total sales for the year and sales to the largest customer included therein amounted to 74.2%. Purchases from the Group's five largest suppliers accounted for 70.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to 37.4%.

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

Report of the Directors

Directors

The Directors during the year were:

Executive directors:

Dr. Lau, Jack *(resigned on 29 June 2013)*
Mr. Tao, Hong Ming *(resigned on 1 February 2013)*
Mr. Mung, Wai Ming *(appointed on 8 May 2013)*
Ms. Liu, Yee Nee *(appointed on 15 May 2013)*
Mr. Lee, Rabi *(appointed on 19 July 2013)*

Non-Executive directors:

Prof. Cheng, Roger Shu Kwan *(resigned on 19 July 2013)*
Prof. Tsui, Chi Ying *(resigned on 19 July 2013)*

Independent Non-Executive directors:

Dr. Lam Lee, Kiu Yue Alice Piera *(resigned on 25 March 2013)*
Prof. Chin, Tai Hong Roland *(resigned on 16 May 2013)*
Mr. Shu, Wa Tung Laurence *(resigned on 7 May 2013)*
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*
Mr. Ng, Wai Hung *(appointed on 7 January 2013)*
Ms. Zhou, Jing *(appointed on 8 May 2013)*

In accordance with articles 83 and 84 of the Company's articles of association, Mr. Mung, Wai Mung, Mr. William Keith Jacobsen and Mr. Ng, Wai Hung will retire from office and, being eligible, will offer themselves for re-election, at the forthcoming annual general meeting of the Company.

Confirmation of independence

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers the independent non-executive Directors to be independent as at the date of this report.

Biographical details of directors and senior management

The biographical details of the Directors and the senior management of the Group are set out on pages 10 to 11 of this annual report.

Directors' Service Contracts

The service contracts between the Company and each of the Directors are for a term of one year subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

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

Contract of Significance

Save as disclosed in this annual report, no Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Competing Interests

For the year ended 31 December 2013, the Directors were not aware of any business or interest of the Directors, the controlling shareholder and their respective associates (as defined under the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

Emolument Policy

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

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

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 8 and 9 to the financial statements, respectively.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 31 December 2013, the interests and short positions of the Directors in the share capital of the Company and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules adopted by the Company, were as follows:

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

Name of Director	Capacity/Nature of Interest Personal interest	Corporate interest	Share options	Total	Percentage of the Company's issued share capital
Keen Platinum Limited ("Keen Platinum") *(Note)*	–	65,441,500	–	65,441,500	5.84%
Mr. Lee, Rabi	270,000	–	108,390	378,390	0.03%
	270,000	65,441,500	108,390	65,819,890	5.87%

Note: Keen Platinum is wholly-owned by Mr. Mung Wai Ming, an executive Director.

Save as disclosed above, as at 31 December 2013, none of the directors 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 the Model Code adopted by the Company.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 31 December 2013, so far as is known to the Directors, the following persons (other than the Directors of the Company) had interests or short positions in the shares or underlying shares of the Company, being 10% 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	Capacity/Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Swanland Management Limited ("Swanland")	Beneficial owner	188,388,510	16.81%
Masteray Limited ("Masteray")	Beneficial owner *(Note a)*	80,743,045	7,21%
	Interest of controlled corporation	188,388,510	16.81%
		269,131,555	24.02%
Sea Progress Limited ("Sea Progress")	Beneficial Owner *(Note a)*	269,131,555	24.02%
Ms. Loh, Jiah Yee, Katherine ("Ms. Loh")	Interest of controlled corporation *(Note a)*	269,131,555	24.02%
	Beneficial owner	4,717,000	0.42%
		273,848,555	24.44%
Capital Fame Technology Limited ("Capital Fame")	Beneficial owner	120,000,000	10.71%
Mr. Chan Yuen Ming ("Mr. Chan")	Interest of controlled corporation *(Note b)*	120,000,000	10.71%
The University of Hong Kong	Beneficial owner	136,117,733	12.15%
The University of Hong Kong	Interest of controlled corporation *(Note c)*	70,482,433	6.29%
	Beneficial owner	65,635,300	5.86%
		136,117,733	12.15%

Notes:

(a) As at 31 December 2013, Swanland is owned as to 67.3% by Masteray and therefore Masteray is deemed to be interested in all the Shares held by Swanland. Masteray is wholly-owned by Sea Progress, which through a discretionary trust, is wholly-owned by Credit Suisse Trust Limited. Ms. Loh is the founder of the said trust, and hence she is deemed to be interested in 273,848,555 Shares. Dr. Lau, Jack, being the spouse of Ms. Loh, is deemed to be interested in all the Shares held by Ms. Loh. Dr. Lau, Jack resigned as an Executive Director effective from 29 June 2013.

(b) Capital Fame, a company incorporated in the BVI with limited liability which is wholly owned by Mr. Chan, hence Mr. Chan is deemed to be interested in all the 120,000,000 Shares that Capital Fame is interested in.

(c) The University of Hong Kong, a substantial shareholder of the Company, is the beneficial owner of 65,635,300 Shares and is interested in 70,482,433 Shares, through Centennial College, which is wholly-owned by it.

Save as disclosed above, as at 31 December 2013, no person (other than the Directors whose interests are set out in the section "DIRECTORS' 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

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

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

The total number of securities available for issue under the Scheme shall not exceed 60,000,000 Shares, being 10% of total issued Shares as at the date of listing and representing approximately 5.35% of the total issued share capital of the Company as at the date of the annual report.

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

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

Details of the Options outstanding as at 31 December 2013 under the Scheme are as follows:

	Number of share options									
Name or category of participant	At 1 Jan 2013	Granted during the year	Exercised during the year	Adjustment of the open offer	Cancelled/ lapsed during the year	At 31 Dec 2013	Exercise Price per share (before adjustment)	Exercise Price per share (after adjustment) (Note (b))	Date of grant	Exercise Period per share
Director										
Mr. Tao, Hong Ming*	750,000	–	–	–	(750,000)	–	HK$0.7	HK$0.646	26-3-2010	(a)
Continuous contract employees	3,300,000	–	–	310,430	(2,624,081)	986,349	HK$0.7	HK$0.646	26-3-2010	(a)
Other participate										
Consultants	1,200,000	–	–	67,120	(400,000)	867,120	HK$0.7	HK$0.646	26-3-2010	(a)
	5,250,000	–	–	377,550	(3,774,081)	1,853,469				

* Mr. Tao, Hong Ming resigned as an Executive Director of the Company on 1 February 2013.

Notes:

(a) All of the 1,853,469 share options will be exercisable during the period from 26 March 2013 to 25 March 2014. The closing price of the shares of the Company immediately before the date on which these share options were granted was HK$0.67 per share.

(b) The number of share options held and the underlying exercise price were adjusted upon the completion of the open offer in March 2013.

Further details of the Scheme are set out in note 26(a) to the financial statements.

Share Options under a Supply Chain Management Agreement

On 11 August 2011, Perception Digital Technology (BVI) Ltd. ("PDBVI"), an indirect wholly-owned subsidiary of the Company, entered into a supply chain management agreement (the "Supply Chain Agreement") with Teleepoch Limited ("Teleepoch") pursuant to which PDBVI, together with its subsidiaries, will act as the exclusive supply chain partner of Teleepoch for a term of three years. In consideration of Teleepoch entering into the Supply Chain Agreement, the Company entered into an option agreement with Teleepoch, pursuant to which the Company granted an option to Teleepoch, entitling Teleepoch to subscribe for a maximum of 15,500,000 shares of the Company (the "Upfront Option"), representing approximately 2.5% of the then existing issued share capital of the Company, at the exercisable price of HK$0.38 per share. The Upfront Option was vested on 11 November 2011 and is exercisable in whole or in part during the period from 11 November 2011 to 10 August 2016. As a result of the open offer of the Company completed in March 2013, the exercise price and the number of shares that may be subscribed under the Upfront Option were adjusted to HK$0.351 and 16,800,450 shares and HK$0.351, respectively, which represented approximately 1.5% of the issued share capital of the Company as at 31 December 2013.

In addition to the Up Front Option, the Company also conditionally granted to Teleepoch an option to subscribe for 0.285 shares of the Company (the "Performance Option") at the exercise price of HK$0.38 for every HK$1.0 of net profit to the Company generated from sales orders placed by the clients of Teleepoch ("Performance Benchmark"), subject to a maximum of 46,750,000 shares of the Company, representing approximately 7.5% of the then existing issued share capital of the Company. On each anniversary date during the term of the Supply Chain Management Agreement, a portion of the Performance Option shall be vested and become exercisable. The number of shares which Teleepoch will be entitled to subscribe for pursuant to such vested portion of the Performance Option shall be determined by reference to the Performance Benchmark for the previous year (the "Vesting Condition"). Subject to such Vesting Condition, the Performance Option may be exercised in whole or in part at any time during the period from 11 August 2012 to 10 August 2016. As a result of the open offer of the Company completed in March 2013, the exercise price and the number of shares that may be subscribed under the Performance Option, subject to the Vesting Condition, were adjusted to HK0.351 and 50,672,325 shares, respectively, which represented approximately 4.5% of the issued share capital of the Company as at 31 December 2013.

Further details of the Upfront Option and Performance Option are set out in note 26(b) to the financial statements.

Arrangements to Purchase Shares or Debentures

Other than option holdings disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 12 to 19 of this annual report.

Event after the Reporting Period

(1) On 20 August 2013, the Company issued a circular, pursuant to which, the Company proposed (i) a capital reduction to reduce each of the paid-up capital of the Company from HK$0.1 to HK$0.01 per share by cancelling paid-up capital of HK$0.09 per share (the "Capital Reduction") and the credit arising from the Capital Reduction be applied towards the cancelling of the accumulated deficit of the Company; and (ii) a sub-division to sub-divide each of the authorised but unissued ordinary shares of the Company with a par value of HK$0.1 each into 10 unissued ordinary shares of the Company with a par value of HK$0.01 each (the "Sub-division"). Subsequent to the end of the reporting period, on 20 January 2014, the Company announced that all the conditions precedent for the implementation of the Capital Reduction and Sub-division had been fulfilled and the Capital Reduction and Sub-division became effective on 20 January 2014 (after market close) (Hong Kong time).

(2) Subsequent to the end of the reporting period, on 3 January 2014, the Company issued a prospectus pursuant to which, the Company proposed an open offer (the "Open Offer II") to issue 1,344,600,000 ordinary shares of the Company (the "Offer Shares") to its existing shareholders on the basis of six offer shares for every five existing shares at a subscription price of HK$0.05 per offer share. The Open Offer II was conditional upon, among other things, the completion of the Capital Reduction as mentioned above. Pursuant to an announcement of the Company dated 24 January 2014, the Open Offer II became unconditional and the dealing of the offer shares was commenced on 28 January 2014. The Company raised net proceeds of approximately HK$64.9 million from the Open Offer II.

Auditors

The financial statements for the year ended 31 December 2013 have been audited by Ernst & Young, the auditors of the Company. A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting. There has been no change in the auditors of the Company in any of the preceding years since the Listing.

On behalf of the Board

Mr. Mung, Wai Ming
Chairman

Hong Kong, 28 March 2014

EY 安永

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

We have audited the consolidated financial statements of Perception Digital Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 109, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
28 March 2014

Consolidated Statement of Profit or Loss

Year ended 31 December 2013

	Notes	2013 HK$	2012 HK$
REVENUE	5	**200,022,317**	340,869,541
Cost of sales		**(179,396,792)**	(315,323,262)
Gross profit		**20,625,525**	25,546,279
Other income	5	**1,067,008**	1,358,878
Research and development costs	7	**(5,125,959)**	(23,678,720)
Selling and distribution expenses		**(12,729,657)**	(16,188,543)
General and administrative expenses		**(19,385,288)**	(39,304,434)
Other expenses, net		**(42,893,891)**	(37,187,744)
Finance costs	6	**(6,853,092)**	(8,556,469)
LOSS BEFORE TAX	7	**(65,295,354)**	(98,010,753)
Income tax credit	10	**64,217**	1,364,311
LOSS FOR THE YEAR		**(65,231,137)**	(96,646,442)
Attributable to:			
Owners of the parent	11	**(65,231,137)**	(96,646,442)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12	**HK cents**	HK cents (Restated)
Basic and diluted		**(4.8)**	(10.5)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2013

	2013 HK$	2012 HK$
LOSS FOR THE YEAR	**(65,231,137)**	(96,646,442)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**235,504**	321,520
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(64,995,633)**	(96,324,922)
Attributable to:		
Owners of the parent	**(64,995,633)**	(96,324,922)

Consolidated Statement of Financial Position

31 December 2013

	Notes	2013 HK$	2012 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,835,136**	7,507,826
Deferred development costs	14	**18,123,387**	34,140,404
Long term deposits	18	**172,228**	446,806
Deferred tax assets	24	**2,406,665**	2,406,665
Total non-current assets		**24,537,416**	44,501,701
CURRENT ASSETS			
Inventories	16	**4,188,240**	26,615,330
Trade receivables	17	**85,489,602**	78,928,766
Prepayments, deposits and other receivables	18	**8,599,496**	41,957,100
Tax recoverable		**–**	1,390,035
Pledged deposits	19	**6,018,550**	16,195,487
Cash and cash equivalents	19	**26,139,149**	43,155,687
Total current assets		**130,435,037**	208,242,405
CURRENT LIABILITIES			
Trade payables	20	**85,274,587**	84,403,598
Other payables and accruals	21	**10,846,371**	20,617,930
Interest-bearing bank and other borrowings	22	**31,330,795**	92,056,996
Tax payable		**868,537**	852,174
Provision	23	**672,700**	977,031
Total current liabilities		**128,992,990**	198,907,729
NET CURRENT ASSETS		**1,442,047**	9,334,676
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,979,463**	53,836,377

	Notes	2013 HK$	2012 HK$
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,979,463**	53,836,377
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	22	**12,300,000**	44,979,236
Deferred tax liabilities	24	**–**	63,607
Total non-current liabilities		**12,300,000**	45,042,843
Net assets		**13,679,463**	8,793,534
EQUITY			
Equity attributable to owners of the parent			
Issued capital	25	**112,050,000**	62,250,000
Reserves	27(a)	**(98,370,537)**	(53,456,466)
Total equity		**13,679,463**	8,793,534

Mung, Wai Ming
Director

Lee, Rabi
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2013

	Notes	Issued capital HK$	Share premium account HK$	Capital reserve HK$ (note 27(a))	Warrant reserve HK$ (note 25)	Share option reserve HK$ (note 26)	Exchange fluctuation reserve HK$	Accumulated losses HK$	Total equity HK$
At 1 January 2012		62,250,000	43,490,307	43,823,276	–	4,831,153	2,228,024	(58,005,373)	98,617,387
Loss for the year		–	–	–	–	–	–	(96,646,442)	(96,646,442)
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	–	321,520	–	321,520
Total comprehensive income/(loss) for the year		–	–	–	–	–	321,520	(96,646,442)	(96,324,922)
Equity-settled share option arrangements	26	–	–	–	–	(547,174)	–	–	(547,174)
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	(1,190,440)	–	1,190,440	–
Issue of warrants	25	–	–	–	7,048,243	–	–	–	7,048,243
At 31 December 2012 and at 1 January 2013		**62,250,000**	**43,490,307**	**43,823,276**	**7,048,243**	**3,093,539**	**2,549,544**	**(153,461,375)**	**8,793,534**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(65,231,137)**	**(65,231,137)**
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**235,504**	**–**	**235,504**
Total comprehensive income/(loss) for the year		**–**	**–**	**–**	**–**	**–**	**235,504**	**(65,231,137)**	**(64,995,633)**
Issue of shares	25	**49,800,000**	**23,094,750**	**–**	**–**	**–**	**–**	**–**	**72,894,750**
Share issue expenses	25	**–**	**(2,553,168)**	**–**	**–**	**–**	**–**	**–**	**(2,553,168)**
Equity-settled share option arrangements	26	**–**	**–**	**–**	**–**	**(460,020)**	**–**	**–**	**(460,020)**
Transfer of share option reserve upon the forfeiture or expiry of share options		**–**	**–**	**–**	**–**	**(773,990)**	**–**	**773,990**	**–**
At 31 December 2013		**112,050,000**	**64,031,889***	**43,823,276***	**7,048,243***	**1,859,529***	**2,785,048***	**(217,918,522)***	**13,679,463**

* These reserve accounts comprise the consolidated negative reserves of HK$98,370,537 (2012: HK$53,456,466) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	2013 HK$	2012 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(65,295,354)**	(98,010,753)
Adjustments for:			
Finance costs	6	**6,853,092**	8,556,469
Interest income	5	**(252,605)**	(144,400)
Depreciation	7	**3,165,029**	3,807,322
Amortisation of deferred development costs	7	**19,096,012**	17,359,145
Impairment of items of property, plant and equipment	7	**149,250**	420,780
Impairment/write-off of deferred development costs	7	**3,081,449**	8,262,712
Loss on disposal of items of property, plant and equipment, net	7	**116,344**	102,137
Write-off of items of property, plant and equipment	7	**–**	546,406
Impairment of trade receivables	7	**18,495,805**	9,750,614
Impairment of other receivables	7	**20,184,795**	7,509,945
Write-off of inventories	7	**–**	10,820,051
Write-down of inventories to net realisable value, net	7	**13,358,278**	5,223,259
Gain on transfer arising from factoring of trade receivables	7	**(29,201)**	(224,901)
Loss on early repayment of an other borrowing	7	**895,449**	–
Reversal of equity-settled share option expense, net	26	**(460,020)**	(547,174)
		19,358,323	(26,568,388)
Decrease in inventories		**9,068,812**	3,857,841
Decrease/(increase) in trade receivables		**(25,034,123)**	65,090,417
Decrease in prepayments, deposits and other receivables		**4,850,882**	13,980,832
Increase/(decrease) in trade payables		**870,908**	(83,492,840)
Decrease in other payables and accruals		**(1,207,188)**	(1,458,371)
Decrease in provision		**(304,331)**	(657,506)
Cash generated from/(used in) operations		**7,603,283**	(29,248,015)
Hong Kong profits tax refunded/(paid)		**1,390,035**	(347,509)
Overseas tax paid		**–**	(11,079)
Net cash flows from/(used in) operating activities		**8,993,318**	(29,606,603)

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	2013 HK$	2012 HK$
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in deposits for purchase of items of property, plant and equipment		**(10,500)**	(220,867)
Purchases of items of property, plant and equipment		**(57,740)**	(2,730,023)
Proceeds from disposal of items of property, plant and equipment		**559,999**	694,964
Additions to deferred development costs		**(6,030,630)**	(24,149,726)
Decrease in pledged deposits		**10,176,937**	765,416
Bank interest received		**252,605**	144,400
Net cash flows from/(used in) investing activities		**4,890,671**	(25,495,836)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	25	**72,894,750**	–
Share issue expenses	25	**(2,553,168)**	–
New other borrowings		**12,000,000**	53,000,000
Repayment of other borrowing		**(16,000,000)**	(3,000,000)
New bank loans		**157,733,878**	381,246,986
Repayment of bank loans		**(239,564,372)**	(376,992,537)
Interest and bank charges paid		**(3,857,957)**	(7,930,505)
Net cash flows from/(used in) financing activities		**(19,346,869)**	46,323,944
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,462,880)**	(8,778,495)
Cash and cash equivalents at beginning of year		**31,592,964**	40,365,986
Effect of foreign exchange rate changes, net		**9,065**	5,473
CASH AND CASH EQUIVALENTS AT END OF YEAR		**26,139,149**	31,592,964
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**12,439,149**	33,144,937
Non-pledged time deposits with original maturity of less than three months when acquired		**13,700,000**	10,010,750
Cash and cash equivalents as stated in the statement of financial position		**26,139,149**	43,155,687
Bank overdrafts	22	**–**	(11,562,723)
Cash and cash equivalents as stated in the statement of cash flows		**26,139,149**	31,592,964

Statement of Financial Position

Year ended 31 December 2013

	Notes	2013 HK$	2012 HK$
NON-CURRENT ASSETS			
Interests in subsidiaries	15	**22,642,740**	23,102,758
CURRENT ASSETS			
Prepayments	18	**13,949**	375
Due from subsidiaries	15	**11,527,373**	–
Cash and cash equivalents	19	**24,272,684**	30,315,505
Total current assets		**35,814,006**	30,315,880
CURRENT LIABILITIES			
Other payables and accruals	21	**979,824**	913,946
Other borrowing	22	**31,330,795**	2,785,985
Total current liabilities		**32,310,619**	3,699,931
NET CURRENT ASSETS		**3,503,387**	26,615,949
TOTAL ASSETS LESS CURRENT LIABILITIES		**26,146,127**	49,718,707
NON-CURRENT LIABILITY			
Other borrowing	22	**12,300,000**	40,857,030
Net assets		**13,846,127**	8,861,677
EQUITY			
Issued capital	25	**112,050,000**	62,250,000
Reserves	27(b)	**(98,203,873)**	(53,388,323)
Total equity		**13,846,127**	8,861,677

Mung, Wai Ming
Director

Lee, Rabi
Director

1. CORPORATE INFORMATION

Perception Digital Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Unit 311, 3rd Floor, Core Building 1, No. 1 Science Park East Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") was primarily involved in the research, design, development and sale of digital signal processing ("DSP") based consumer electronic devices/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the trading of electronic components.

2.1 BASIS OF PREPARATION

The Group's consolidated financial statements report a net loss attributable to owners of the parent of approximately HK$65.2 million (2012: HK$96.6 million) for the year ended 31 December 2013 and consolidated net current assets of approximately HK$1.4 million (2012: HK$9.3 million) and net assets of approximately HK$13.7 million (2012: HK$8.8 million) as at 31 December 2013. The Group's net loss for the year included one-off non-cash provisions/charges in excess of HK$55 million. The Group had total cash and bank balances of approximately HK$32.2 million (including pledged deposits of approximately HK$6.0 million) as at 31 December 2013 and had positive net cash flows from operating activities of approximately HK$9.0 million for the year ended 31 December 2013. The Group had no outstanding bank borrowings as at 31 December 2013.

In preparing these financial statements, the directors of the Company have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and cash positive operations in the foreseeable future. Active cost-saving and value-adding measures to streamline/enhance the Group's existing operations and to focus on improving the financial resources of the Group have been implemented by the Group to substantially reduce its operating expenses and cash outflows in the current and coming years and to enable the Group to revitalise itself to take advantage of any growth opportunities in the near future (the "Cost-saving/Value-adding Measures").

2.1 BASIS OF PREPARATION (continued)

In addition, subsequent to the end of the reporting period, in January 2014, the Company completed an open offer to issue 1,344,600,000 ordinary shares of the Company at a subscription price of HK$0.05 per offer share (the "Open Offer II"). The Company received net proceeds of approximately HK$64.9 million from the Open Offer II and part of which amounted to approximately HK$34.0 million has been used to repay short term other borrowing of the Group.

The directors of the Company are of the opinion that, in light of the measures/arrangements implemented to date, including, inter alia, the Cost-saving/Value-adding Measures and the Open Offer II, the Group will have sufficient financial resources to satisfy its future working capital and other financing requirements for the foreseeable future and, therefore, be able to continue realising its assets and discharging its liabilities in the normal course of business. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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 ("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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES 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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 13 and amendments to HKAS 1, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of financial instruments are included in note 33 to the financial statements.

(b) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has reflected the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

2.3 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 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

Apart from the above, the HKICPA has also issued *Annual Improvements to HKFRSs 2010 – 2012 Cycle* and *Annual Improvements to HKFRSs 2011 – 2013 Cycle* which set out a collection of amendments to HKFRSs in response to the International Accounting Standards Board's annual improvements process. Except for the amendment to HKFRS 1, in which no effective date has been specified and, accordingly, is effective upon its issuance in January 2014, these amendments are effective for annual periods beginning on or after 1 July 2014, although there are separate transitional provisions for each standard.

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 its results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets of the Group are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement of loans and receivables

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition).

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement of loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

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

Income tax

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced deprecation charge.

Revenue recognition

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

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

(b) from the rendering of services, when the corresponding services are rendered;

(c) rental income, on a time proportion basis over the lease terms; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants (including directors, employees and consultants of the Company and its subsidiaries) who render services and/or contribute to the success of the Group's operations. Employees (including directors) and consultants of the Group receive remuneration in the form of share-based payments, whereby employees/consultants render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

The cost of equity-settled transactions with employees is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employees/consultants as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Paid leave carried forward

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a specific percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rental payables under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currencies of certain of the Group's subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the Group's subsidiaries of which their functional currencies are currencies other than the Hong Kong dollar are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currency of each entity of the Group, judgement is required to determine and consider the currency that mainly influences sales prices of goods and services and of the country/jurisdiction whose competitive forces and regulations mainly determines the sales prices of goods and services; the currency that mainly influences labour, materials and other costs of providing goods or services; the currency in which funds from financing activities are generated; and the currency in which receipts from operating activities are usually retained. The functional currency of each entity of the Group is determined based on management's assessment of the primary economic environment in which the entity operates. When the indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Development costs

Development costs are capitalised and deferred in accordance with the accounting policy for research and development costs as set out in note 2.4 to the financial statements. Initial capitalisation of costs is based on management's judgement that the Group can demonstrate the technological and economical feasibility of completing the intangible asset so that it will be available for use or sale, usually when a product development project has reached a defined milestone according to an established project management model.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Income taxes

The Group has exposure to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules/tax laws. The Group carefully evaluates tax implications of transactions/arrangements and tax provisions are set up accordingly. The tax treatment of such transactions/arrangements is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

Adoption of the going concern basis

In assessing whether the going concern basis is appropriate in the preparation of these financial statements, management, including the directors of the Company, takes into account all available information about the foreseeable future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to the sufficiency of the Group's financial resources to satisfy its working capital and other financing requirements for the foreseeable future, including, inter alia, the effectiveness of the Cost-saving/Value-adding Measures as detailed in note 2.1 to the financial statements, the Group's current and expected future financial performance and operating cash flows, potential sources of new funds, and other measures/arrangements before they can satisfy themselves that the going concern basis is appropriate.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on, inter alia, historical loss experience for assets with similar credit risk characteristics and/or other relevant facts and circumstances.

The Group maintains an allowance for estimated impairment of receivables arising from the inability of its debtors to make the required payments or if the preserve value of estimated future cash flows (excluding future credit losses that have not yet been incurred) is less than the financial assets carrying amount. The Group makes its estimates based on, inter alia, the ageing of its receivable balances, debtors' creditworthiness, past repayment history and historical write-off experience and/or other relevant facts and circumstances. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis/assumptions/estimates of making the allowance.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets

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

Net realisable value of inventories

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Recognition of deferred tax assets primarily involves management judgement and estimations regarding the future taxable profits of the entities in which the losses arose. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 24 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs as set out in note 2.4 to the financial statements. Determining the development costs to be capitalised requires management to make significant assumptions and estimates regarding the expected future economic benefits of the assets and the expected period of benefits.

Useful lives of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated economic useful lives of the property, plant and equipment. Management estimates the useful lives of the property, plant and equipment to be two to four years or over the shorter of the lease terms and four years for leasehold improvements. Changes in the expected level of usage, technological developments and/or the period over which future economic benefits are generated could impact the economic useful lives of the assets and, therefore, future depreciation charges could be revised.

Useful lives of deferred development costs

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

Provision for warranties

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

4. OPERATING SEGMENT INFORMATION

The Group focuses primarily on the research, design, development and sale of DSP-based consumer electronic devices/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the trading of electronic components. 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.

Geographical information

The following tables present revenue from external customers for the years ended 31 December 2013 and 2012, and certain non-current asset information as at 31 December 2013 and 31 December 2012, by geographical areas.

	European Union HK$	United States of America HK$	Mainland China HK$	Hong Kong HK$	Others HK$	Total HK$
Year ended 31 December 2013						
Revenue from external customers	97,314,968	44,880,321	16,670,866	15,952,279	25,203,883	200,022,317
Year ended 31 December 2012						
Revenue from external customers	98,876,212	117,604,743	13,292,312	67,349,388	43,746,886	340,869,541
As at 31 December 2013						
Non-current assets (excluding deferred tax assets)	–	–	8,172,125	13,958,626	–	22,130,751
Non-current assets (excluding financial instruments and deferred tax assets)	–	–	8,172,125	13,796,898	–	21,969,023
As at 31 December 2012						
Non-current assets (excluding deferred tax assets)	–	–	13,803,756	28,291,280	–	42,095,036
Non-current assets (excluding financial instruments and deferred tax assets)	–	–	13,540,000	28,291,280	–	41,831,280

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.

Information about major customers

Revenue of HK$148,458,887 was derived from transactions with one customer, which individually amounted to 10 per cent or more of the Group's total revenue for the current year. Revenues of HK$243,250,131 and HK$37,086,095 were derived from transactions with two customers, which individually amounted to 10 per cent or more of the Group's total revenue for the prior year.

5. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	Group	
	2013	2012
	HK$	HK$
Revenue		
Sale of goods	**193,513,754**	337,150,028
Rendering of services	**6,508,563**	3,560,973
Royalty income	**–**	158,540
	200,022,317	340,869,541
Other income		
Bank interest income	**252,605**	144,400
Government subsidies	**3,786**	578,447
Gross rental income from a sublease arrangement	**577,826**	435,774
Others	**232,791**	200,257
	1,067,008	1,358,878

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2013	2012
	HK$	HK$
Interest on bank loans, overdrafts and other loan wholly repayable within five years*	**5,260,127**	4,799,555
Bank charges	**653,590**	1,284,874
Other finance costs on trade receivables factored:		
Bank interest	**636,643**	1,720,383
Bank charges	**302,732**	751,657
	6,853,092	8,556,469

* Reflecting a waiver of interest on an other borrowing of HK$499,726 (2012: Nil) for the year.

7. LOSS BEFORE TAX

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

	Notes	Group 2013 HK$	Group 2012 HK$
Cost of inventories sold and services rendered		**179,396,792**	315,323,262
Depreciation	13	**3,165,029**	3,807,322
Research and development costs:			
Deferred expenditure amortised^	14	**19,096,012**	17,359,145
Current year expenditure^^		**5,125,959**	23,678,720
		24,221,971	41,037,865
Minimum lease payments under operating leases:			
Land and buildings		**1,799,654**	5,919,997
Office equipment		**110,043**	131,379
Motor vehicles		**120,000**	193,536
		2,029,697	6,244,912
Auditors' remuneration for audit services		**780,000**	1,380,000
Employee benefit expense (including directors' remuneration (note 8)):			
Wages, salaries, allowances, bonuses and benefits in kind		**16,080,299**	47,403,346
Termination benefits		**3,714,468**	5,880,180
Reversal of equity-settled share option expense, net		**(460,020)**	(147,309)
Pension scheme contributions (defined contribution schemes)##		**1,207,763**	2,780,672
		20,542,510	55,916,889
Less: Amount capitalised		**(6,030,630)**	(24,149,726)
		14,511,880	31,767,163
Foreign exchange differences, net		**(198,430)**	346,066
Government subsidies#		**(3,786)**	(578,447)
Impairment of items of property, plant and equipment*	13	**149,250**	420,780
Impairment/write-off of deferred development costs*	14	**3,081,449**	8,262,712
Impairment of trade receivables*	17	**18,495,805**	9,750,614
Impairment of other receivables*	18	**20,184,795**	7,509,945
Loss on early repayment of an other borrowing*		**895,449**	–
Write-off of inventories*		**–**	10,820,051
Write-down of inventories to net realisable value, net^		**13,358,278**	5,223,259
Gain on transfer arising from factoring of trade receivables*		**(29,201)**	(224,901)
Product warranty provision	23	**794,730**	1,850,047
Loss on disposal of items of property, plant and equipment, net*		**116,344**	102,137
Write-off of items of property, plant and equipment*		**–**	546,406

7. LOSS BEFORE TAX (continued)

* The impairment of items of property, plant and equipment, the impairment/write-off of deferred development costs, the impairment of trade receivables, the impairment of other receivables, the write-off of inventories, the gain on transfer arising from factoring of trade receivables, the loss on early repayment of an other borrowing, the net loss on disposal of items of property, plant and equipment and the write-off of items of property, plant and equipment are included in "Other expenses, net" on the face of the consolidated statement of profit or loss.

^ The amortisation of deferred development costs and the net write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of profit or loss and in "Cost of inventories sold and services rendered" above.

^^ The current year expenditure for research and development activities charged directly to profit or loss is included in "Research and development costs" on the face of the consolidated statement of profit or loss.

Government grants have been received by a subsidiary of the Group established in the People's Republic of China (the "PRC") for supporting its research and development activities in Mainland China.

At 31 December 2013, the Group had no material forfeited contributions available to reduce its contributions to its pension schemes in future years (2012: Nil).

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2013	2012
	HK$	HK$
Fees	**323,684**	1,569,169
Other emoluments:		
Salaries, allowances and benefits in kind	**2,236,517**	4,573,904
Equity-settled share option expense, net/(reversal of equity-settled share option expense, net)	**(122,512)**	51,613
Pension scheme contributions (defined contribution scheme)	**15,000**	27,500
	2,129,005	4,653,017
	2,452,689	6,222,186

In prior years, two directors, of which one of them was resigned from his position during the year and the other director (the "New Director") was appointed during the year, were granted share options before their appointment as the directors of the Company, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 26(a) to the financial statements. The fair value of such options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the applicable amounts included in the consolidated financial statements for the current and prior years in respect of the period in which they are the directors of the Company are included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2013 HK$	2012 HK$
Prof. Chin, Tai Hong Roland (resigned on 16 May 2013)	**18,817**	224,167
Dr. Lam Lee, Kiu Yue Alice Piera (resigned on 25 March 2013)	**8,333**	224,167
Mr. Ng, Wai Hung (appointed on 7 January 2013)	**49,194**	–
Mr. Shu, Wa Tung Laurence (resigned on 7 May 2013)	**17,742**	224,167
Mr. William Keith Jacobsen (appointed on 7 January 2013)	**49,194**	–
Ms. Zhou, Jing (appointed on 8 May 2013)	**32,392**	–
	175,672	672,501

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

(b) Executive directors and non-executive directors

	Fees HK$	Salaries, allowances and benefits in kind HK$	Reversal of equity-settled share option expense, net HK$	Pension scheme contributions HK$	Total remuneration HK$
2013					
Executive directors:					
Dr. Lau, Jack (resigned on 29 June 2013)	24,722	1,542,667	–	7,500	1,574,889
Mr. Lee, Rabi (appointed on 19 July 2013)*	–	307,500	–	6,250	313,750
Ms. Liu, Yee Nee (appointed on 15 May 2013)	31,453	–	–	–	31,453
Mr. Mung, Wai Ming (appointed on 8 May 2013)	32,392	–	–	–	32,392
Mr. Tao, Hong Ming (resigned on 1 February 2013)	4,167	386,350	(122,512)	1,250	269,255
	92,734	2,236,517	(122,512)	15,000	2,221,739
Non-executive directors:					
Prof. Cheng, Roger Shu Kwan (resigned on 19 July 2013)	27,639	–	–	–	27,639
Prof. Tsui, Chi Ying (resigned on 19 July 2013)	27,639	–	–	–	27,639
	55,278	–	–	–	55,278
	148,012	2,236,517	(122,512)	15,000	2,277,017

* Only includes the remuneration of Mr. Lee, Rabi for the period subsequent to his appointment as a director of the Company.

8. DIRECTORS' REMUNERATION (continued)

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

	Fees HK$	Salaries, allowances and benefits in kind HK$	Equity-settled share option expense HK$	Pension scheme contributions HK$	Total remuneration HK$
2012					
Executive directors:					
Dr. Lau, Jack	224,167	3,181,904	–	13,750	3,419,821
Mr. Tao, Hong Ming	224,167	1,392,000	51,613	13,750	1,681,530
	448,334	4,573,904	51,613	27,500	5,101,351
Non-executive directors:					
Prof. Tsui, Chi Ying	224,167	–	–	–	224,167
Prof. Cheng, Roger Shu Kwan	224,167	–	–	–	224,167
	448,334	–	–	–	448,334
	896,668	4,573,904	51,613	27,500	5,549,685

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2012: two) directors, of which one of them is the New Director, and the other director was resigned from his position during the year, details of whose remuneration are set out in note 8 to the financial statements. Details of the remuneration for the year of the remaining three (2012: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2013 HK$	2012 HK$
Salaries, allowances, bonuses and benefits in kind	**4,077,594**	2,385,627
Termination benefits	**159,150**	295,200
Reversal of equity-settled share option expense, net	**(25,060)**	(99,259)
Pension scheme contributions (defined contribution scheme)	**66,250**	37,500
	4,277,934	2,619,068

9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees	
	2013	2012
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**–**	1
	3	3

In prior years, share options were granted to three (2012: three) non-director highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 26(a) to the financial statements. The fair value of such options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the consolidated financial statements for the current and prior years are included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

No provision for Hong Kong profits tax has been made for the current and prior years as the Group did not generate any assessable profits arising in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2013 HK$	2012 HK$
Group:		
Current – Elsewhere		
– Charge for the year	**–**	11,079
Deferred (note 24)	**(64,217)**	(1,375,390)
Total tax credit for the year	**(64,217)**	(1,364,311)

10. INCOME TAX (continued)

A reconciliation of the tax credit applicable to loss before tax at the Hong Kong statutory tax rate (the statutory tax rate for the jurisdiction in which the majority of the Group's operating subsidiaries are domiciled) to the tax credit at the Group's effective tax rate is as follows:

	Group	
	2013	2012
	HK$	HK$
Loss before tax	**(65,295,354)**	(98,010,753)
Hong Kong statutory tax rate	**16.5%**	16.5%
Tax credit at the Hong Kong statutory tax rate	**(10,773,733)**	(16,171,774)
Effect of difference in tax rate/tax rule for specific jurisdiction or enacted by local tax authority	**91,062**	189,973
Income not subject to tax	**(159,294)**	(42,383)
Expenses not deductible for tax	**4,279,756**	803,868
Tax losses not recognised	**6,457,869**	13,729,208
Others	**40,123**	126,797
Tax credit at the Group's effective tax rate	**(64,217)**	(1,364,311)

The Group's subsidiary established in the PRC has obtained the status of National High-Tech Enterprise and, accordingly, is entitled to a lower PRC corporate income tax rate of 15% for the years ended 31 December 2013 and 2012.

11. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2013 includes a loss of HK$64,897,112 (2012: HK$118,651,655) which has been dealt with in the financial statements of the Company.

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

The calculations of basic and diluted loss per share are based on:

	2013 HK$	2012 HK$
Loss		
Loss for the year attributable to ordinary equity holders of the parent	**(65,231,137)**	(96,646,442)

	Number of shares	
	2013	2012 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year	**1,368,342,571**	923,466,937

The calculation of basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$65,231,137 (2012: HK$96,646,442) and the weighted average number of ordinary shares of 1,368,342,571 (2012: 923,466,937, as restated) in issue during the year. The basic loss per share amounts for the years ended 31 December 2013 and 2012 have been adjusted to reflect the bonus element in certain open offers and placing of shares of the Company during the respective reporting periods and/or subsequent to the end of the respective reporting periods.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2013 and 2012 in respect of a dilution as the impact of the warrants and share options outstanding during the respective reporting periods had no dilutive effect on the basic loss per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and office equipment HK$	Machinery and equipment HK$	Leasehold improvements HK$	Toolings HK$	Motor vehicles HK$	Total HK$
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	12,019,733	2,061,291	2,503,200	12,641,177	968,101	30,193,502
Accumulated depreciation and impairment	(7,603,286)	(1,810,102)	(845,821)	(12,073,292)	(353,175)	(22,685,676)
Net carrying amount	4,416,447	251,189	1,657,379	567,885	614,926	7,507,826
At 1 January 2013, net of accumulated depreciation and impairment	4,416,447	251,189	1,657,379	567,885	614,926	7,507,826
Additions	30,540	–	–	210,250	–	240,790
Disposals	(442,518)	–	(10,203)	–	(223,622)	(676,343)
Impairment	–	–	–	(149,250)	–	(149,250)
Depreciation provided during the year	(1,666,679)	(104,547)	(783,238)	(448,590)	(161,975)	(3,165,029)
Exchange realignment	50,024	–	24,276	–	2,842	77,142
At 31 December 2013, net of accumulated depreciation and impairment	2,387,814	146,642	888,214	180,295	232,171	3,835,136
At 31 December 2013:						
Cost	10,624,625	2,061,291	2,525,245	1,483,749	348,257	17,043,167
Accumulated depreciation and impairment	(8,236,811)	(1,914,649)	(1,637,031)	(1,303,454)	(116,086)	(13,208,031)
Net carrying amount	2,387,814	146,642	888,214	180,295	232,171	3,835,136

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Furniture, fixtures and office equipment HK$	Machinery and equipment HK$	Leasehold improvements HK$	Toolings HK$	Motor vehicles HK$	Total HK$
31 December 2012						
At 1 January 2012:						
Cost	14,799,412	2,061,291	2,359,580	11,827,819	1,273,264	32,321,366
Accumulated depreciation and impairment	(9,168,076)	(1,633,269)	(677,299)	(11,294,654)	(319,004)	(23,092,302)
Net carrying amount	5,631,336	428,022	1,682,281	533,165	954,260	9,229,064
At 1 January 2012, net of accumulated depreciation and impairment	5,631,336	428,022	1,682,281	533,165	954,260	9,229,064
Additions	1,099,338	–	1,282,427	1,006,257	348,257	3,736,279
Disposals	(377,217)	–	–	–	(419,884)	(797,101)
Write-off	–	–	(546,406)	–	–	(546,406)
Impairment	–	–	–	(420,780)	–	(420,780)
Depreciation provided during the year	(2,013,150)	(176,833)	(791,497)	(550,757)	(275,085)	(3,807,322)
Exchange realignment	76,140	–	30,574	–	7,378	114,092
At 31 December 2012, net of accumulated depreciation and impairment	4,416,447	251,189	1,657,379	567,885	614,926	7,507,826
At 31 December 2012:						
Cost	12,019,733	2,061,291	2,503,200	12,641,177	968,101	30,193,502
Accumulated depreciation and impairment	(7,603,286)	(1,810,102)	(845,821)	(12,073,292)	(353,175)	(22,685,676)
Net carrying amount	4,416,447	251,189	1,657,379	567,885	614,926	7,507,826

During the year ended 31 December 2013, the directors of the Company assessed the recoverable amounts of certain items of toolings with reference to the changes in technological, market and economic environment, and estimated sales orders of the relevant products, and considered that a provision for impairment of HK$149,250 (2012: HK$420,780) should be made for items that had become obsolete. In the opinion of the directors, such items do not have any material fair value less costs of disposal or value in use that could be recovered.

14. DEFERRED DEVELOPMENT COSTS

	Group	
	2013	2012
	HK$	HK$
Cost at 1 January, net of accumulated amortisation and impairment	**34,140,404**	35,427,233
Additions – internal development	**6,030,630**	24,149,726
Amortisation provided during the year	**(19,096,012)**	(17,359,145)
Impairment/write-off during the year	**(3,081,449)**	(8,262,712)
Exchange realignment	**129,814**	185,302
At 31 December	**18,123,387**	34,140,404
At 31 December:		
Cost	**50,537,847**	59,703,281
Accumulated amortisation and impairment	**(32,414,460)**	(25,562,877)
Net carrying amount	**18,123,387**	34,140,404

The impairment recognised during the years ended 31 December 2013 and 2012 mainly reflected the decrease in the recoverable amounts of certain electronic device development projects of the Group as assessed by the directors of the Company, with reference to, inter alia, the changes in technological, market and economic environment, and estimated sales orders of the relevant products, primarily as a result of a decrease in the future revenue that the Group expects to derive from these projects. In the opinion of the directors of the Company, the related deferred development costs do not have any material fair value less costs of disposal or value in use that could be recovered.

15. INTERESTS IN SUBSIDIARIES

	Company 2013 HK$	2012 HK$
Unlisted investments, at cost	**10,144,507**	10,144,507
Due from subsidiaries	**198,544,487**	127,810,055
Impairment	**(174,518,881)**	(114,851,804)
	34,170,113	23,102,758

The amounts due from subsidiaries included in the Company's non-current assets are unsecured, interest-free and are not repayable within twelve months from the end of the reporting period. The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and are repayable on demand or have no fixed terms of repayment.

The movement in provision for impairment of amounts due from subsidiaries is as follows:

	Company 2013 HK$	2012 HK$
At 1 January	**114,851,804**	–
Impairment losses recognised	**59,667,077**	114,851,804
At 31 December	**174,518,881**	114,851,804

15. INTERESTS IN SUBSIDIARIES (continued)

A provision for impairment was recognised for certain individually impaired amounts due from subsidiaries with a total carrying amount before provision of HK$198,544,487 (2012: HK$127,810,055) because, in the opinion of the directors of the Company, the recoverable amounts thereof, based on their estimated future cash flows, reflecting changes in economic and business conditions and the Group's strategies, were lower than their carrying amounts.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Perception Digital Technology (BVI) Ltd. ("Perception Digital BVI")	British Virgin Islands/ Hong Kong	US$13,197.70	100	–	Investment holding
Perception Digital Limited	Hong Kong	HK$67,690	–	100	Research, design, development and sale of DSP-based consumer electronic devices/ platforms, including embedded firmware; provision of solutions/ services for DSP – based consumer electronic devices/platforms; and trading of electronic components
PD Trading (Hong Kong) Limited	Hong Kong	HK$2	–	100	Research, design, development and sale of DSP-based consumer electronic devices/ platforms, including embedded firmware; provision of solutions/ services for DSP – based consumer electronic devices/platforms; and trading of electronic components
IWC Digital Limited	Hong Kong	HK$2	–	100	Inactive
IPR Tech Limited	Hong Kong	HK$1	–	100	Inactive
幻音科技(深圳)有限公司*	PRC/Mainland China	HK$16,060,000	–	100	Research and development of DSP – based devices/ platforms and provision of embedded firmware

* This entity is registered as a wholly-foreign-owned enterprise under PRC law and its statutory financial statements are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

16. INVENTORIES

	Group 2013 HK$	Group 2012 HK$
Raw materials and components	**3,372,779**	18,000,121
Work in progress	**–**	636,637
Finished goods	**815,461**	7,978,572
	4,188,240	26,615,330

17. TRADE RECEIVABLES

	Group 2013 HK$	Group 2012 HK$
Trade receivables	**118,890,159**	94,320,607
Impairment	**(33,400,557)**	(15,391,841)
	85,489,602	78,928,766

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, or could be longer under certain circumstances. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

Trade receivables are non-interest-bearing, except for an individual balance of HK$7,616,643 as at 31 December 2013, which bears interest at 1.6% per month. As at 31 December 2012, trade receivables were non-interest-bearing except for two individual balances of HK$7,616,643 and HK$1,181,711, which bore interest at 1.6% per month and 14% per annum, respectively.

The Group generally does not hold any collateral or other credit enhancements over its trade receivable balances, except as detailed below.

As at 31 December 2012, a trade receivable of HK$7,616,643 and an other receivable of HK$20,058,594 of the Group were secured by an item of intellectual property of a customer of the Group. During the current year, the Group obtained the item of intellectual property by taking possession of the collateral it holds as security. However, the Group was aware of a civil suit filed by a third party in the United States of America against this customer during the current year due to infringement of certain patents. The United States International Trade Commission also imposed a limited exclusive order to this customer during the current year, which prohibited the entry of the infringing electronic devices and products of this customer with utilisation of such intellectual property in the United States of America. The directors of the Company consider minimal future economic benefits could be generated from this item of intellectual property to the Group and no value was ascribed to it as at 31 December 2013. The Group currently does not have any policies or detailed plans for disposing of such item or for using it in its operations. Accordingly, the Group recognised a full provision of HK$7,616,643 and HK$20,058,594 for the trade receivable and other receivable, respectively, of this customer during the current year.

17. TRADE RECEIVABLES (continued)

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

	Group	
	2013	2012
	HK$	HK$
Within 30 days	**3,910,733**	16,656,806
31 to 60 days	**20,635,405**	11,704,386
61 to 90 days	**21,436,571**	3,762,419
Over 90 days	**39,506,893**	46,805,155
	85,489,602	78,928,766

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

	Group	
	2013	2012
	HK$	HK$
At 1 January	**15,391,841**	5,641,227
Impairment losses recognised (note 7)	**18,495,805**	9,750,614
Amount written off as uncollectible	**(487,089)**	–
At 31 December	**33,400,557**	15,391,841

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$33,400,557 (2012: HK$15,391,841) with a carrying amount before provision of HK$51,780,570 (2012: HK$19,221,481). The individually impaired trade receivables relate to debtors that are in financial difficulties and/or are in default in payments and none or only a portion of the receivables is expected to be recovered.

17. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2013	2012
	HK$	HK$
Neither past due nor impaired	**38,850,270**	26,050,640
Less than 31 days past due	**13,869,106**	3,805,788
31 to 60 days past due	**3,355,986**	742,965
61 to 90 days past due	**702,634**	388,389
Over 90 days past due	**10,331,593**	44,111,344
	67,109,589	75,099,126

Trade receivables that were neither past due nor impaired relate to a sizeable number of customers for whom there was no recent history of significant default or are major/strategic customers of the Group.

Trade receivables that were past due but not impaired relate to a number of independent debtors that have a good track record/relationship with the Group and/or are major/strategic customers of the Group. Based on past experience/current assessment, the directors of the Company are of the opinion that no provision for impairment is necessary at this stage in respect of these balances as there has not been a significant change in credit quality or relationship with the debtors and the balances are still considered fully recoverable.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Prepayments	**304,805**	1,709,267	**13,949**	375
Deposits and other receivables	**36,297,788**	48,320,498	**–**	–
	36,602,593	50,029,765	**13,949**	375
Impairment	**(27,830,869)**	(7,625,859)	**–**	–
	8,771,724	42,403,906	**13,949**	375
Less: Portion classified as non-current assets	**(172,228)**	(446,806)	**–**	–
Current portion	**8,599,496**	41,957,100	**13,949**	375

Other receivables are non-interest-bearing, except for two individual balances of HK$20,058,594 (2012: HK$20,058,594) and HK$10,447,675 (2012: HK$10,601,167), which bear interest at 1.6% per month and 14% per annum, respectively.

The Group generally does not hold any collateral or other credit enhancements over its other receivables, except as detailed below.

An other receivable of HK$20,058,594 and a trade receivable of HK$7,616,643 as at 31 December 2012 of the Group were secured by an item of intellectual property of a customer of the Group. Further details are set out in note 17 to the financial statements.

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

	Group	
	2013	2012
	HK$	HK$
At 1 January	**7,625,859**	–
Impairment losses recognised (note 7)	**20,184,795**	7,509,945
Exchange realignment	**20,215**	115,914
At 31 December	**27,830,869**	7,625,859

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of HK$27,830,869 (2012: HK$7,625,859) with a carrying amount before provision of HK$30,506,269 (2012: HK$10,601,167). The individually impaired other receivables relate to debtors of the Group that are in default in payments and only a portion of the receivables is expected to be recovered.

Except for financial assets relating to the provision for impairment of other receivables, none of the above assets is impaired at the end of the reporting period and the financial assets relate to deposits and receivables for which there was no recent history of significant default or are due from independent debtors that have a good relationship with the Group.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Cash and bank balances	**12,439,149**	33,144,937	**10,572,684**	20,304,755
Time deposits	**19,718,550**	26,206,237	**13,700,000**	10,010,750
	32,157,699	59,351,174	**24,272,684**	30,315,505
Less: Pledged deposits for banking facilities	**(5,241,218)**	(15,416,361)	**–**	–
Pledged deposit for a licensing arrangement	**(777,332)**	(779,126)	**–**	–
Cash and cash equivalents	**26,139,149**	43,155,687	**24,272,684**	30,315,505

At the end of the reporting period, the cash and bank balances, and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$498,666 (2012: HK$472,548) and HK$3,923,920 (2012: HK$25,427,111), respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

20. 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	
	2013	2012
	HK$	HK$
Within 30 days	**27,732,890**	60,086,449
31 to 60 days	**15,703,220**	4,455,626
Over 60 days	**41,838,477**	19,861,523
	85,274,587	84,403,598

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

21. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Due to directors*	**194,625**	589,167	**248,684**	589,167
Other payables	**9,001,422**	15,793,253	**509,020**	102,659
Accruals	**1,650,324**	4,235,510	**222,120**	222,120
	10,846,371	20,617,930	**979,824**	913,946

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

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

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2013			2012		
	Contractual interest rate	Maturity	HK$	Contractual interest rate	Maturity	HK$
Current						
Bank overdrafts – secured	-	-	-	5% to 6%	On Demand	11,562,723
Portion of bank loans due for repayment within one year or on demand – unsecured	-	-	-	4.25% to 5.75%	2013	2,770,948
Portion of bank loans due for repayment within one year or on demand – secured	-	-	-	2.68% to 6.75%	2013	74,937,340
Other borrowing – unsecured	6%	2014	31,330,795	6%	2013	2,785,985
			31,330,795			92,056,996
Non-current						
Portion of bank loans due for repayment after one year – unsecured	-	-	-	5.25% to 5.75%	2014-2015	2,854,899
Portion of a bank loan due for repayment after one year – secured	-	-	-	6%	2014-2015	1,267,307
Other borrowing – unsecured	5%	2015	12,300,000	6%	2014-2017	40,857,030
			12,300,000			44,979,236
			43,630,795			137,036,232

Company

	2013			2012		
	Contractual interest rate	Maturity	HK$	Contractual interest rate	Maturity	HK$
Current						
Other borrowing – unsecured	6%	2014	31,330,795	6%	2013	2,785,985
Non-current						
Other borrowing – unsecured	5%	2015	12,300,000	6%	2014-2017	40,857,030
			43,630,795			43,643,015

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group		Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	**–**	89,271,011	**–**	–
In the second year	**–**	3,325,093	**–**	–
In the third to fifth years, inclusive	**–**	797,113	**–**	–
	–	93,393,217	**–**	–
Other borrowings repayable:				
Within one year (note (a))	**31,330,795**	2,785,985	**31,330,795**	2,785,985
In the second year (note (b))	**12,300,000**	40,857,030	**12,300,000**	40,857,030
	43,630,795	43,643,015	**43,630,795**	43,643,015
	43,630,795	137,036,232	**43,630,795**	43,643,015

Notes:

(a) An other borrowing of the Company and the Group with a carrying amount of HK$31,330,795 as at 31 December 2013 (2012: HK$43,643,015) contains a repayment on-demand clause that gives the lender the right to demand the repayment of the other borrowing together with interest accrued thereon at any time on or after 18 January 2014. Accordingly, for the purpose of the above analysis, a portion of the other borrowing due for repayment after one year is analysed into other borrowing repayable within one year as at 31 December 2013 (2012: a portion of the other borrowing due for repayment after one year was analysed into other borrowing repayable in the second year). As a result of the completion of an open offer (the "Open Offer I") in March 2013, this lender became a shareholder of the Company.

(b) Another other borrowing of the Company and the Group with a carrying amount of HK$12,300,000 as at 31 December 2013 (2012: Nil) was advanced by a related company of the Company, in which a significant beneficial shareholder of the Company has a beneficial interest in the related company. The other borrowing from the related company is unsecured, bears interest at 5% per annum and is repayable on 31 January 2015.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Ignoring the effect of any repayment on-demand clause and based on the maturity terms of the bank and other borrowings, the bank and other borrowings are repayable:

	Group		Company	
	2013 HK$	2012 HK$	**2013 HK$**	2012 HK$
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	**–**	89,271,011	**–**	–
In the second year	**–**	3,325,093	**–**	–
In the third to fifth years, inclusive	**–**	797,113	**–**	–
	–	93,393,217	**–**	–
Other borrowings repayable:				
Within one year	**2,730,113**	2,785,985	**2,730,113**	2,785,985
In the second year	**13,925,082**	2,538,188	**13,925,082**	2,538,188
In the third to fifth years, inclusive	**26,975,600**	38,318,842	**26,975,600**	38,318,842
	43,630,795	43,643,015	**43,630,795**	43,643,015
	43,630,795	137,036,232	**43,630,795**	43,643,015

In respect of certain short term bank borrowings of approximately HK$44.8 million as at 31 December 2012 provided to certain subsidiaries of the Group by a creditor bank (the "Bank"), the Group was unable to maintain certain financial covenants as specified in the corresponding banking facility letter during the year ended 31 December 2012. On 10 December 2012, the Bank issued a letter to the Group to grant a waiver on the financial covenants for the period ended 30 June 2012 and all the terms and conditions in the existing banking facility letter should remain unchanged and provided always that the banking facilities should remain subject to review at any time by the Bank and in any event by the next banking facility review time in 2013. The Group repaid the bank borrowings to the Bank during the current year and had no outstanding bank borrowings from the Bank as at 31 December 2013.

In respect of certain other short term bank borrowings of approximately HK$9.6 million as at 31 December 2012 provided to a subsidiary of the Group by another creditor bank (the "Other Bank"), the Group was unable to maintain certain financial covenants as specified in the corresponding banking facility letter during the year ended 31 December 2012. The Group maintained a pledged deposit of approximately HK$8.2 million with the Other Bank as at 31 December 2012 in connection with such banking facilities. The Group repaid the bank borrowings to the Other Bank during the current year and had no outstanding bank borrowings from the Other Bank as at 31 December 2013.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Certain of the Group's banking facilities are secured by the pledge of certain of the Group's time deposits amounting to HK$6,018,550 as at 31 December 2013. Certain of the Group's interest-bearing bank borrowings and banking facilities were secured by the pledge of certain of the Group's time deposits amounting to HK$16,195,487 as at 31 December 2012.

The Government of the Hong Kong Special Administrative Region provided special guarantees for certain of the Group's banking facilities up to a guarantee amount of HK$9,600,000 as at 31 December 2012.

All interest-bearing other borrowings of the Group were denominated in Hong Kong dollars as at 31 December 2013. Except for certain interest-bearing bank borrowings amounting to HK$68,084,785 as at 31 December 2012, which were denominated in United States dollars, all the interest-bearing bank and other borrowings of the Group were denominated in Hong Kong dollars as at 31 December 2012.

23. PROVISION

Group

	Product warranties HK$
At 1 January 2013	977,031
Additional provision (note 7)	794,730
Net amounts utilised during the year	(1,099,061)
At 31 December 2013	672,700

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

24. DEFERRED TAX

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

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation HK$	Deferred development costs HK$	Total HK$
At 1 January 2012	323,979	5,705,741	6,029,720
Deferred tax credited to the statement of profit or loss during the year*	(122,034)	(254,451)	(376,485)
Exchange realignment	–	59,155	59,155
Gross deferred tax liabilities at 31 December 2012 and at 1 January 2013	201,945	5,510,445	5,712,390
Deferred tax credited to the statement of profit or loss during the year*	(124,095)	(2,613,523)	(2,737,618)
Exchange realignment	–	11,780	11,780
Gross deferred tax liabilities at 31 December 2013	77,850	2,908,702	2,986,552

24. DEFERRED TAX (continued)

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance HK$	Losses available for offsetting against future taxable profits HK$	Warranty provision HK$	Total HK$
At 1 January 2012	78,738	6,690,420	269,699	7,038,857
Deferred tax credited/(charged) to the statement of profit or loss during the year*	(78,738)	1,186,132	(108,489)	998,905
Exchange realignment	–	17,686	–	17,686
Gross deferred tax assets at 31 December 2012 and at 1 January 2013	–	7,894,238	161,210	8,055,448
Deferred tax charged to the statement of profit or loss during the year*	–	(2,623,187)	(50,214)	(2,673,401)
Exchange realignment	–	11,170	–	11,170
Gross deferred tax assets at 31 December 2013	–	5,282,221	110,996	5,393,217

* Net deferred tax credited to the statement of profit or loss during the year amounted to HK$64,217 (2012: HK$1,375,390) (note 10).

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

	Group	
	2013 HK$	2012 HK$
Net deferred tax assets recognised in the consolidated statement of financial position	**2,406,665**	2,406,665
Net deferred tax liabilities recognised in the consolidated statement of financial position	**–**	(63,607)

24. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of approximately HK$144,321,000 (2012: HK$123,314,000), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits arising in Hong Kong of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of approximately HK$10,335,000 (2012: HK$7,240,000), subject to the approval of the relevant PRC tax authority, that will expire in one to five years for offsetting against future taxable profits arising in Mainland China of the company in which the losses arose.

Deferred tax assets have been recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised based on management's forecasted future taxable profits, which are based on (i) the availability of taxable temporary differences relating to the same taxation authority and the same taxable entity; (ii) whether the unused tax losses resulted from identifiable causes which are unlikely to recur; and (iii) the likely timing and level of future taxable profits together with future tax planning strategies. Based on the foregoing and in light of the Cost-saving/Value-adding Measures that have been implemented by the Group as further detailed in note 2.1 of the financial statements, the directors of the Company consider that the future taxable profits of the relevant taxable entities will be improved and it is probable that sufficient taxable profits will be available against which the carryforward of unused tax losses in which deferred tax assets had been recognised at the end of the reporting period can be utilised.

Deferred tax assets have not been recognised in respect of tax losses of approximately HK$122,147,000 (2012: HK$82,522,000) as, in the opinion of the directors of the Company, it is currently not considered probable that taxable profits will be available against which such tax losses can be utilised.

25. SHARE CAPITAL

Shares

	2013 **HK$**	2012 HK$
Authorised:		
2,000,000,000 (2012: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000,000**	200,000,000
Issued and fully paid:		
1,120,500,000 (2012: 622,500,000) ordinary shares of HK$0.1 each	**112,050,000**	62,250,000

25. SHARE CAPITAL (continued)

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

(a) On 27 February 2013, the Company issued a prospectus, pursuant to which, the Company proposed the Open Offer I to issue not less than 311,250,000 ordinary shares of the Company to its existing shareholders on the basis of one offer share of the Company for every two shares at a subscription price of HK$0.1286 per offer share. As further detailed in an announcement of the Company dated 19 March 2013, the Open Offer I became unconditional and a total of 311,250,000 offer shares were issued in March 2013.

(b) As further detailed in an announcement of the Company dated 22 August 2013 and an announcement for amendment of the Company dated 23 August 2013, the Company entered into a placing agreement with a placing agent, pursuant to which, the placing agent had conditionally agreed with the Company to endeavor on a best effort basis to place up to 186,750,000 placing shares of the Company at a placing price of HK$0.176 per placing share (the "Placing"). On 2 September 2013, the Company announced that the conditions of the Placing had been fulfilled and the completion of the Placing took place on the same day. An aggregate of 186,750,000 placing shares of the Company were successfully placed pursuant to the terms and conditions of the placing agreement.

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

	Number of shares in issue	Issued capital HK$	Share premium account HK$	Total HK$
At 1 January 2012, 31 December 2012 and 1 January 2013	622,500,000	62,250,000	43,490,307	105,740,307
Issue of new shares in connection with the Open Offer I	311,250,000	31,125,000	8,901,750	40,026,750
Issue of new shares in connection with the Placing	186,750,000	18,675,000	14,193,000	32,868,000
	498,000,000	49,800,000	23,094,750	72,894,750
Share issue expenses	–	–	(2,553,168)	(2,553,168)
At 31 December 2013	1,120,500,000	112,050,000	64,031,889	176,081,889

25. SHARE CAPITAL (continued)

Warrants

During the year ended 31 December 2012, the Group issued unlisted warrants to an independent third party (the "Warrants Subscriber") as part of the conditions for the provision of a loan facility of HK$50 million by the Warrants Subscriber to the Group for a period of 5 years. The warrants entitle the Warrants Subscriber to subscribe up to HK$16,807,500 in aggregate, in cash for ordinary shares of the Company at an original subscription price of HK$0.27 per share, subject to adjustment, at any time during the period from 31 October 2012 to 30 October 2017.

During the year ended 31 December 2013, as a result of the completion of the Open Offer I and the Placing of the Company in March 2013 and September 2013, respectively, the subscription price of the outstanding warrants was adjusted to HK$0.23 per share pursuant to the terms of the instrument relating to the warrants. The exercise in full of such warrants would, under the capital structure of the Company as at 31 December 2013, result in the issue of 73,076,086 additional ordinary shares of the Company.

Subsequent to the end of the reporting period, as a result of the completion of the Open Offer II in January 2014 as further detailed in note 35 to the financial statements, the subscription price of the outstanding warrants was further adjusted to HK$0.14 per share pursuant to the terms of the instrument relating to the warrants.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS

(a) Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants (including directors, employees and consultants of the Company and its subsidiaries) who render services and/or contribute to the success of the Group's operations. Eligible participants of the Scheme include any proposed or existing director, manager or other employee of the Group; any shareholder of the Company; any supplier of goods or services to the Group; any customer, consultant, business or joint venture partner, franchisee, contractor, or agent of any member of the Group; any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and any associate of any of the foregoing persons. The Scheme became effective on 27 November 2009 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(a) Share Option Scheme (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of the share options; and (iii) the average closing price of the Company's shares listed on the Stock Exchange for the five trading days immediately preceding the date of offer.

During the year ended 31 December 2013, as a result of the completion of the Open Offer I in March 2013, the exercise price of the outstanding share options of the Company and the number of shares that can be subscribed for upon the exercise of the outstanding share options were adjusted (the "Adjustment") with reference to the provisions of the Scheme, Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding the interpretation of Rule 17.03(13) of the Listing Rules.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(a) Share Option Scheme (continued)

The following share options were outstanding under the Scheme during the year:

	2013		2012	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**0.7**	**5,250,000**	0.677	15,000,000
Forfeited during the period from 1 January 2013 to 20 March 2013	**0.7**	**(750,000)**	–	–
Adjustment		**377,550**	–	–
Forfeited during the period from 21 March 2013 to 31 December 2013	**0.646**	**(1,398,231)**	0.7	(5,300,000)
Expired during the year	**0.646**	**(1,625,850)**	0.621	(4,450,000)
At 31 December	**0.646**	**1,853,469**	0.7	5,250,000

The exercise price after the Adjustment and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2013

Number of options after the Adjustment	Exercise price after the Adjustment* HK$ per share	Exercise period
1,853,469	0.646	26 March 2013 to 25 March 2014

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(a) Share Option Scheme (continued)

2012

Number of options	Exercise price* HK$ per share	Exercise period
1,750,000	0.7	26 March 2012 to 25 March 2013
3,500,000	0.7	26 March 2013 to 25 March 2014
5,250,000		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the end of the reporting period, the Company had 1,853,469 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company as at 31 December 2013, result in the issue of 1,853,469 additional ordinary shares of the Company and additional share capital of HK$185,347 and share premium of HK$1,011,994 (before issue expenses).

Subsequent to the end of the reporting period, as a result of the completion of the Open Offer II in January 2014 as further detailed in note 35 to the financial statements, the exercise price of the outstanding options and the number of shares that can be subscribed for upon the exercise of the outstanding share options were further adjusted from HK$0.646 to HK$0.429 per share, and from 1,853,469 to 2,788,729 shares of the Company, respectively, with reference to the provisions of the Scheme, Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding the interpretation of Rule 17.03(13) of the Listing Rules.

At the date of approval of these financial statements, the Company had no share options outstanding under the Scheme, as the remaining share options were lapsed on 25 March 2014.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(b) Share Options under a Supply Chain Management Agreement

On 11 August 2011, Perception Digital BVI, an indirect wholly-owned subsidiary of the Company, entered into a supply chain management agreement (the "Supply Chain Agreement") with Teleepoch Limited ("Teleepoch"), pursuant to which, Perception Digital BVI, together with its subsidiaries, will act as the exclusive supply chain partner of Teleepoch for a term of three years. In consideration of Teleepoch entering into the Supply Chain Agreement, the Company entered into an option agreement (the "Option Agreement") with Teleepoch, pursuant to which the Company granted an option to Teleepoch, entitling Teleepoch to subscribe for originally a maximum of 15,500,000 ordinary shares of the Company (the "Upfront Option"), representing approximately 2.5% of the then issued share capital of the Company, at an original exercise price of HK$0.38 per share. The Upfront Option was vested on 11 November 2011 and is exercisable in whole or in part during the period from 11 November 2011 to 10 August 2016.

In addition to the Upfront Option, the Company also conditionally granted to Teleepoch an option to subscribe for 0.285 shares of the Company at the exercise price of HK$0.38 per share (the "Performance Option") for every HK$1.0 of net profit to the Company generated from sales orders placed by the clients of Teleepoch (the "Performance Benchmark"), subject to originally a maximum of 46,750,000 ordinary shares of the Company, representing approximately 7.5% of the then issued share capital of the Company. On each anniversary date during the term of the Supply Chain Agreement, a portion of the Performance Option shall be vested and become exercisable. The number of shares which Teleepoch shall be entitled to subscribe for pursuant to such vested portion of the Performance Option shall be determined by reference to the Performance Benchmark for the previous year. Subject to such vesting condition, the Performance Option may be exercised in whole or in part at any time during the period from 11 August 2012 to 10 August 2016.

Both the Upfront Option and the Performance Option (collectively, the "Options") were granted under the general and unconditional mandate granted to the directors of the Company pursuant to an ordinary resolution of the Company passed at the annual general meeting held on 6 May 2011 to allot, issue and deal with up to 20% of the then issued share capital of the Company.

During the year ended 31 December 2013, as a result of the completion of the Open Offer I in March 2013, the exercise price of the outstanding Options and the number of shares that can be subscribed for upon the exercise of the outstanding Options were adjusted (the "Option Adjustment") pursuant to the terms of the Option Agreement.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(b) Share Options under a Supply Chain Management Agreement (continued)

The following Options were outstanding under the Option Agreement during the year:

	2013 Weighted average exercise price HK$ per share	2013 Number of options	2012 Weighted average exercise price HK$ per share	2012 Number of options
At 1 January	**0.38**	**62,250,000**	0.38	62,250,000
Option Adjustment		**5,222,775**	–	–
At 31 December	**0.351**	**67,472,775**	0.38	62,250,000

The exercise prices after the Option Adjustment and exercise periods of the Options outstanding as at 31 December 2013 are as follows:

Number of Options after the Option Adjustment	Exercise price after the Option Adjustment * HK$ per share	Exercise period
16,800,450	0.351	11 November 2011 to 10 August 2016
50,672,325^	0.351	11 August 2012 to 10 August 2016^
67,472,775		

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(b) Share Options under a Supply Chain Management Agreement (continued)

The exercise price and exercise periods of the Options outstanding as at 31 December 2012 are as follows:

Number of Options	Exercise price* HK$ per share	Exercise period
15,500,000	0.38	11 November 2011 to 10 August 2016
46,750,000^	0.38	11 August 2012 to 10 August 2016^
62,250,000		

* The exercise price of the Options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

^ The number of Performance Options and the period that the Performance Options become vested and exercisable are subject to the achievement of the Performance Benchmark.

At the end of the reporting period, the Company had 67,472,775 Options outstanding under the Option Agreement. The exercise in full of the outstanding Options would, under the present capital structure of the Company as at 31 December 2013, result in the issue of 67,472,775 additional ordinary shares of the Company and additional share capital of HK$6,747,277 and share premium of HK$16,935,666 (before issue expenses).

Subsequent to the end of the reporting period, as a result of the completion of the Open Offer II in January 2014 as further detailed in note 35 to the financial statements, the exercise price of the outstanding Options and the number of shares that can be subscribed for upon the exercise of the outstanding Options were further adjusted from HK$0.351 to HK$0.233 per share, and from 67,472,775 to 101,519,537 Options of the Company, respectively, pursuant to the terms of the Option Agreement.

At the date of approval of these financial statements, the Company had 101,519,537 Options outstanding with an exercise price of HK$0.233 per share under the Option Agreement, after taking into account the aforementioned adjustment, which represented 4.12% of the Company's shares in issue at that date.

During the year ended 31 December 2013, the Company recognised (i) an equity-settled share option expense under HKFRS 2 *Share-based Payment* of HK$38,876 (2012: HK$399,945) for share options granted in prior periods and vested during the year, and (ii) a reversal of equity-settled share option expense under HKFRS 2 of HK$498,896 (2012: HK$947,119) for options that did not ultimately vest.

27. RESERVES

(a) Group

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

The Group's capital reserve originally represented (i) the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the shares of Perception Digital BVI issued in exchange therefor pursuant to a group reorganisation in 2000; (ii) the excess of the nominal value of the shares and the share premium account of Perception Digital BVI acquired pursuant to a group reorganisation in 2009, over the nominal value of the Company's shares issued in exchange therefor; and (iii) the waiver of amounts due to certain parties related to certain then beneficial shareholders of the Company.

(b) Company

	Notes	Share premium account HK$	Capital reserve HK$	Warrant reserve HK$	Share option reserve HK$	Retained profits/ (accumulated losses) HK$	Total HK$
At 1 January 2012		43,490,307	10,177,239	–	4,831,153	263,564	58,762,263
Loss and total comprehensive loss for the year		–	–	–	–	(118,651,655)	(118,651,655)
Equity-settled share option arrangements	26	–	–	–	(547,174)	–	(547,174)
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	(1,190,440)	1,190,440	–
Issue of warrants	25	–	–	7,048,243	–	–	7,048,243
At 31 December 2012 and at 1 January 2013		**43,490,307**	**10,177,239**	**7,048,243**	**3,093,539**	**(117,197,651)**	**(53,388,323)**
Loss and total comprehensive loss for the year		**–**	**–**	**–**	**–**	**(64,897,112)**	**(64,897,112)**
Equity-settled share option arrangements	26	**–**	**–**	**–**	**(460,020)**	**–**	**(460,020)**
Transfer of share option reserve upon the forfeiture or expiry of share options		**–**	**–**	**–**	**(773,990)**	**773,990**	**–**
Issue of shares	25	**23,094,750**	**–**	**–**	**–**	**–**	**23,094,750**
Share issue expenses	25	**(2,553,168)**	**–**	**–**	**–**	**–**	**(2,553,168)**
At 31 December 2013		**64,031,889**	**10,177,239**	**7,048,243**	**1,859,529**	**(181,320,773)**	**(98,203,873)**

The Company's capital reserve represents (i) the excess of the net asset value of the subsidiaries acquired pursuant to a group reorganisation in 2009, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the waiver of amounts due to certain parties related to certain then beneficial shareholders of the Company.

27. RESERVES (continued)

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits/accumulated losses should the related options expire or be forfeited after vesting.

The warrant reserve is in connection with the warrants subscribed which are yet to be exercised as further detailed in note 25 to the financial statements. The amount will either be transferred to the share premium account when the related warrants are exercised, or be transferred to retained profits/accumulated losses should the related warrants expire.

28. CONTINGENT LIABILITIES

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

As at 31 December 2012, the banking facilities (excluding trade receivable factoring facilities) granted to certain subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of HK$74,173,574. As at 31 December 2012, the trade receivable factoring facilities granted to a subsidiary subject to a guarantee given to banks by the Company were utilised to the extent of approximately HK$41,712,806.

29. OPERATING LEASE ARRANGEMENTS

(a) As sublessor

The Group subleases its office premises under the operating lease arrangements with the lease negotiated for a term ranging from one to two years.

At 31 December 2013, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2013	2012
	HK$	HK$
Within one year	**54,008**	516,250

29. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases its office premises and 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 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013	2012
	HK$	HK$
Within one year	**473,244**	1,415,573
In the second to fifth years, inclusive	**492,995**	414,227
	966,239	1,829,800

30. RELATED PARTY TRANSACTIONS

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

(a) During the year, the Group borrowed HK$12 million from a related company pursuant to a loan agreement entered into with the related company, in which, based on information available to the directors of the Company, a significant beneficial shareholder of the Company has a beneficial interest in the related company.

The loan from the related company is unsecured, bears interest at 5% per annum and is repayable on 31 January 2015.

The interest expense recognised by the Group for the year ended 31 December 2013 (2012: Nil) in respect of the loan from the related company amounted to HK$300,000 (2012: Nil).

(b) During the year ended 31 December 2012, the Group entered into a sale and leaseback transaction in respect of a motor vehicle with a related company, in which the spouse of a director and the chief executive officer of the Company at that time, who resigned from such positions during the current year, has a beneficial interest. Based on information available to the directors of the Company and for the purpose of these financial statements, the spouse is also considered to be a significant beneficial shareholder of the Company during the current and prior years. Pursuant to the arrangement, the Group disposed of a motor vehicle to the related company at a consideration of HK$260,000 and subsequently leased back the same motor vehicle from the related company at a monthly rent of HK$20,000 for the period from 1 June 2012 to 31 May 2014. The leaseback arrangement was early terminated on 30 June 2013.

The rental expense recognised by the Group for the year ended 31 December 2013 in respect of the motor vehicle leaseback transaction amounted to HK$120,000 (2012: HK$140,000).

30. RELATED PARTY TRANSACTIONS (continued)

(c) In the prior year, the Group borrowed HK$3 million from a related company pursuant to a loan agreement entered into with a related company, in which the spouse of a director and the chief executive officer of the Company at that time has a beneficial interest in the related company. Based on the information available to the directors of the Company and for the purpose of these financial statements, the spouse is also considered to be a significant beneficial shareholder of the Company during that period.

The loan from the related company was unsecured, bore interest at 4.25% per annum and was fully repaid during the prior year.

The interest expense recognised by the Group for the year ended 31 December 2012 in respect of the loan from the related company amounted to approximately HK$39,000.

(d) In the prior year, the Group purchased a motor vehicle from a company at a consideration of approximately HK$348,000. Based on the information available to the directors of the Company, the spouse of a director and the chief executive officer of the Company at that time was then a member of the key management personnel of and had then a beneficial interest in a parent of that company.

(e) For the year ended 31 December 2011, the Group entered into (i) a tenancy agreement with Welleader Group Limited ("Welleader"), a company wholly-owned by the spouse of a director and the chief executive officer of the Company at that time, for the leasing of an office premises by the Group and (ii) a sublease agreement with another company beneficially owned by a then substantial shareholder of the Company, with that company as the lessor and Welleader as the sublessor, for the leasing of another office premises by the Group (collectively, the "Leases"). In the prior year, the Group entered into termination agreement with Welleader whereby the Group and Welleader agreed to early terminate the Leases which would otherwise be expired on 27 January 2014. Neither party was required to pay any penalty or compensation to any other party in respect of the termination of the Leases. Further details of the termination of the Leases are also set out in the announcements of the Company dated 20 August 2012 and 24 December 2012.

The rental expense recognised by the Group for the year ended 31 December 2012 in respect of the Leases (net of the effect of applicable rent-free period over the lease terms) amounted to approximately HK$3,520,000.

In the opinion of the directors of the Company, the above related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

30. RELATED PARTY TRANSACTIONS (continued)

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

	Group	
	2013 HK$	2012 HK$
Short term employee benefits	**3,624,667**	7,407,865
Post-employment benefits	**52,500**	65,000
Termination benefits	**–**	295,200
Equity-settled share option expense, net/(reversal of equity-settled share option expense, net)	**14,778**	(47,646)
Total compensation paid or payable to key management personnel	**3,691,945**	7,720,419

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

31. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	2013 HK$	2012 HK$
Loans and receivables:		
Trade receivables	**85,489,602**	78,928,766
Financial assets included in prepayments, deposits and other receivables	**8,599,496**	40,511,589
Pledged deposits	**6,018,550**	16,195,487
Cash and cash equivalents	**26,139,149**	43,155,687
	126,246,797	178,791,529

31. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

Financial liabilities

	2013 HK$	2012 HK$
Financial liabilities at amortised cost:		
Trade payables	**85,274,587**	84,403,598
Other payables and accruals	**7,423,785**	18,773,173
Interest-bearing bank and other borrowings	**43,630,795**	137,036,232
	136,329,167	240,213,003

Company

Financial assets

	2013 HK$	2012 HK$
Loans and receivables:		
Due from subsidiaries	**20,163,795**	8,636,420
Cash and cash equivalents	**24,272,684**	30,315,505
	44,436,479	38,951,925

Financial liabilities

	2013 HK$	2012 HK$
Financial liabilities at amortised cost:		
Other payables and accruals	**731,140**	324,779
Other borrowings	**43,630,795**	43,643,015
	44,361,935	43,967,794

32. TRANSFERRED FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

On 11 April 2011, a subsidiary of the Group entered into a factoring agreement (the "Factoring Agreement") with a bank for factoring certain of its trade receivables due from two major customers to improve the Group's liquidity and working capital. Under the Factoring Agreement, the Group transferred credit default risk of 90% of its factored receivables and retained 10% credit default risk and 100% of late payment risk through interest charged by the bank on the outstanding balance of the factored receivables. These financial assets are classified as financial assets that are not derecognised in their entirety. During the year ended 31 December 2013, the Group ceased to factor its trade receivables with the bank.

As at 31 December 2012, the Group factored trade receivables of HK$52,206,116 to a bank for cash. As the financial asset derecognition conditions as stipulated in HKAS 39 *Financial Instruments: Recognition and Measurement* had not been fulfilled, the Group's factored receivables were not derecognised in their entirety. Subsequent to the transfer, the Group did not retain any rights on the use of the factored trade receivables, including sale, transfer or pledge of the factored trade receivables to any other third parties. The Group continued to recognise factored trade receivables of HK$8,470,984 included in other receivables and recognised their associated liabilities of HK$8,500,184 included in other payables and accruals in the consolidated statement of financial position as at 31 December 2012 to the extent of its continuing involvement in the transferred trade receivables under the factoring arrangements with the bank. Accordingly, a gain on transfer of HK$224,901 was resulted for the year ended 31 December 2012 from the factoring of trade receivables.

The following table provides a summary of financial assets that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition, together with the associated liabilities:

	2013 **HK$**	2012 HK$
Carrying amount of the transferred financial assets (Factored trade receivables)	–	8,470,984
Carrying amount of associated liabilities	–	(8,500,184)

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in deposits and other receivables, financial liabilities included in other payables and accruals and current portion of bank and other borrowings, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance team headed by the finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance team reports directly to the directors and the audit committee. At each reporting date, the finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the directors. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2013 was assessed to be insignificant.

The Group and the Company did not have any financial assets and liabilities measured at fair value as at 31 December 2013 and 31 December 2012.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, pledged deposits and cash and cash equivalents. The main purpose of these financial instruments is to finance/raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables and financial liabilities included in other payables and accruals, which mainly arise directly from its operations.

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

Interest rate risk

As at 31 December 2013 and 31 December 2012, the Group is exposed to fair value interest rate risk in relation to the other borrowings of the Group with fixed interest rates. The Group currently does not have any fair value interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

As at 31 December 2012, the Group was also exposed to the risk of changes in market interest rates related to the Group's interest bearing bank borrowings with floating interest rates. The Group did not use derivative financial instruments to hedge its interest rate risk. The Group mitigated this risk by closely monitoring the movements in interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings) for the year ended 31 December 2012.

	Group	
	Increase/ (decrease) in basis points	Decrease/ (increase) in loss before tax
		HK$
2012		
Hong Kong dollar	25	(63,271)
Hong Kong dollar	(25)	63,271
United States dollar	25	(170,212)
United States dollar	(25)	170,212

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures primarily arise from revenue and other income generated, cost and expenses incurred, and certain bank borrowings denominated in currencies other than the Group's operating units' functional currencies. For the Group's operating units' that have the United States dollar as their functional currency, their foreign currency transactions during the years ended 31 December 2013 and 2012, and the units' monetary assets and liabilities denominated in foreign currencies as at the end of the reporting period were mainly denominated in Hong Kong dollars. As the Hong Kong dollar ("HK$") is pegged to the United States dollar ("US$") within a narrow band, the Group does not expect any significant movements in the US$/HK$ exchange rate. Accordingly, management considers that the Group's foreign currency risk exposure is not significant.

Credit risk

The Group primarily trades with recognised and creditworthy third parties or with customers with long term/strategic relationships. The receivable balances of the Group are monitored by senior management on an ongoing basis. Since the Group primarily trades with recognised and creditworthy third parties or with customers with long term/strategic relationships, there is normally no requirement for collateral, except for certain arrangements with a customer, as further detailed in notes 17 and 18 to the financial statements.

The credit risk of the Group's financial assets, which comprise trade receivables, financial assets included in deposits and other receivables, pledged deposits, and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company was also exposed to credit risk through the granting of financial guarantees outstanding as at 31 December 2012, further details of which are disclosed in note 28 to the financial statements.

Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had certain concentrations of credit risk as 32.5% (2012: 16.9%) and 89.5% (2012: 74.8%) of the Group's trade receivables and other receivables were due from the Group's largest customer and five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risks to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations. In the prior years, the Group tried to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. After the implementation of the Cost-saving/Value-adding Measurements as further detailed in note 2.1 to the financial statements, and the capital fund raising exercises during the current year and after the end of the reporting period, the Group aims to maintain sufficient cash and cash equivalents and cash flows from operations to meet its liquidity requirements.

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

Group

		2013	
	On demand or less than 1 year HK$	1 to 5 years HK$	Total HK$
Trade payables	**85,274,587**	**–**	**85,274,587**
Other payables and accruals	**7,423,785**	**–**	**7,423,785**
Interest-bearing other borrowings (note)	**31,330,795**	**12,950,000**	**44,280,795**
	124,029,167	**12,950,000**	**136,979,167**

		2012	
	On demand or less than 1 year HK$	1 to 5 years HK$	Total HK$
Trade payables	84,403,598	–	84,403,598
Other payables and accruals	18,675,977	–	18,675,977
Interest-bearing bank and other borrowings (note)	92,692,264	54,420,282	147,112,546
	195,771,839	54,420,282	250,192,121

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

Company

	2013		
	On demand or less than 1 year HK$	**1 to 5 years HK$**	**Total HK$**
Financial liabilities – other payables and accruals	**731,140**	**–**	**731,140**
Interest-bearing other borrowings (note)	**31,330,795**	**12,950,000**	**44,280,795**
	32,061,935	**12,950,000**	**45,011,935**

	2012		
	On demand or less than 1 year HK$	1 to 5 years HK$	Total HK$
Financial liabilities – other payables and accruals	324,779	–	324,779
Interest-bearing other borrowing (note)	3,000,000	50,139,726	53,139,726
Guarantees given to banks in connection with facilities granted to subsidiaries	115,886,380	–	115,886,380
	119,211,159	50,139,726	169,350,885

Note:

Included in the above interest-bearing bank and other borrowings of the Group and the Company are certain term loans with carrying amounts as at 31 December 2013 of HK$31,330,795 (2012: HK$49,932,162) and HK$31,330,795 (2012: HK$43,643,015), respectively, the loan agreements of which contain a repayment on-demand clause giving the creditor banks of the bank loans the right to call in the bank loans at any time and the lender of the other loan the right to call in the other loan at any time on or after 18 January 2014. Accordingly, for the purpose of the above maturity profile, the contractual undiscounted payments of such other loan of the Group and the Company in the amount of HK$31,330,795 are classified as "on demand" as at 31 December 2013. Such other borrowing was subsequently settled in full in February 2014.

As at 31 December 2012, for the purpose of the above maturity profile, the contractual undiscounted payments of such bank loans of the Group totalling HK$6,289,147 and of such other loan of the Group in the amount of HK$50,139,726 were classified as "on demand" and "1 to 5 years", respectively, and the contractual undiscounted payments of such other loan of the Company in the amount of HK$50,139,726 was classified as "1 to 5 years".

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

In accordance with the terms of the interest-bearing bank and other borrowings which contain a repayment on-demand clause, the maturity profile of those loans as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

Group

	Less than 1 year HK$	1 to 5 years HK$	Total HK$
As at 31 December 2013	**2,939,836**	**40,120,000**	**43,059,836**
As at 31 December 2012	9,436,288	62,000,000	71,436,288

Company

	Less than 1 year HK$	1 to 5 years HK$	Total HK$
As at 31 December 2013	**2,939,836**	**40,120,000**	**43,059,836**
As at 31 December 2012	3,000,000	62,000,000	65,000,000

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. As at 31 December 2012, the Group was subject to certain capital requirements, such as gearing ratio and net tangible assets requirements, imposed by certain banks which granted certain banking facilities to the Group in the prior year. These capital requirements are monitored by management on an ongoing basis. The Group is not subject to any externally imposed capital requirements after the repayment of the relevant bank borrowings under those banking facilities in the current year.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

35. EVENTS AFTER THE REPORTING PERIOD

(1) On 20 August 2013, the Company issued a circular, pursuant to which, the Company proposed (i) a capital reduction to reduce each of the paid-up capital of the Company from HK$0.1 to HK$0.01 per share by cancelling paid-up capital of HK$0.09 per share (the "Capital Reduction") and the credit arising from the Capital Reduction be applied towards the cancelling of the accumulated deficit of the Company; and (ii) a sub-division to sub-divide each of the authorised but unissued ordinary shares of the Company with a par value of HK$0.1 each into 10 unissued ordinary shares of the Company with a par value of HK$0.01 each (the "Sub-division"). Subsequent to the end of the reporting period, on 20 January 2014, the Company announced that all the conditions precedent for the implementation of the Capital Reduction and Sub-division had been fulfilled and the Capital Reduction and Sub-division became effective on 20 January 2014 (after market close) (Hong Kong time).

(2) Subsequent to the end of the reporting period, on 3 January 2014, the Company issued a prospectus pursuant to which, the Company proposed the Open Offer II to issue 1,344,600,000 ordinary shares of the Company to its existing shareholders on the basis of six offer shares for every five existing shares at a subscription price of HK$0.05 per offer share. The Open Offer II was conditional upon, among other things, the completion of the Capital Reduction as mentioned above. Pursuant to an announcement of the Company dated 24 January 2014, the Open Offer II became unconditional and the dealing of the offer shares was commenced on 28 January 2014.

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2014.

Financial Summary

A summary of the Group's results for the last five financial years and the assets and liabilities of the Group as at 31 December 2013, 2012, 2011, 2010 and 2009 as extracted from the published audited financial statements is set out below. The summary does not form part of the audited financial statements.

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$	HK$	HK$	HK$	HK$
RESULTS					
REVENUE	**200,022,317**	340,869,541	533,406,703	497,683,452	548,148,089
Cost of sales	**(179,396,792)**	(315,323,262)	(486,958,388)	(423,252,233)	(461,530,840)
Gross profit	**20,625,525**	25,546,279	46,448,315	74,431,219	86,617,249
Other income	**1,067,008**	1,358,878	8,748,028	673,347	899,908
Research and development costs	**(5,125,959)**	(23,678,720)	(8,321,705)	(7,357,953)	(15,629,989)
Selling and distribution expenses	**(12,729,657)**	(16,188,543)	(13,923,258)	(10,338,614)	(13,946,828)
General and administrative expenses	**(19,385,288)**	(39,304,434)	(45,467,014)	(27,776,524)	(26,146,395)
Other expenses, net	**(42,893,891)**	(37,187,744)	(7,435,420)	(144,036)	(518,912)
Finance costs	**(6,853,092)**	(8,556,469)	(5,434,911)	(2,591,923)	(3,882,964)
PROFIT/(LOSS) BEFORE TAX	**(65,295,354)**	(98,010,753)	(25,385,965)	26,895,516	27,392,069
Income tax credit/(expense)	**64,217**	1,364,311	3,397,094	(3,871,559)	234,335
PROFIT/(LOSS) FOR THE YEAR	**(65,231,137)**	(96,646,442)	(21,988,871)	23,023,957	27,626,404
Attributable to:					
Owners of the parent	**(65,231,137)**	(96,646,442)	(21,988,871)	23,023,957	27,626,404

	As at 31 December				
	2013	2012	2011	2010	2009
	HK$	HK$	HK$	HK$	HK$
ASSETS AND LIABILITIES					
TOTAL ASSETS	**154,972,453**	252,744,106	375,347,282	315,623,114	430,701,326
TOTAL LIABILITIES	**(141,292,990)**	(243,950,572)	(276,729,895)	(196,026,695)	(348,448,425)
	13,679,463	8,793,534	98,617,387	119,596,419	82,252,901