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PERCEPTION DIGITAL HOLDINGS LIMITED

幻音數碼控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

LOAN AGREEMENT AND ISSUE OF UNLISTED WARRANTS UNDER GENERAL MANDATE

On 18 October 2012 after trading hours of the Stock Exchange, the Company and the Subscriber entered into the Loan Agreement pursuant to which the Subscriber (as lender) agreed to grant a Loan Facility up to an aggregate principal amount of HK\$50,000,000 to the Company (as borrower) for a term of five years, subject to the Subscriber's right to call for early repayment after expiry of 15 months after the date of the first drawdown of the Loan Facility. The Loan facility carries an interest rate of 6% per annum.

On 18 October 2012 after trading hours of the Stock Exchange, the Company and the Subscriber also entered into the Warrant Subscription Agreement whereupon the Company agreed to issue and the Subscriber agreed to subscribe for the Warrants at the aggregate consideration of HK\$1.00. The Warrants carry rights to subscribe for Warrant Shares at the Exercise Price (being the initial price of HK\$0.27 per Warrant Share (subject to adjustment pursuant to the Instrument)) up to HK\$16,807,500 for a period of 5 years from the date of the Instrument. The Warrant Shares will be issued under the General Mandate.

The Exercise Price represents (i) a premium of 8.0% over the closing price of HK\$0.25 per Share as quoted on the Stock Exchange on the Last Trading Day, being 18 October 2012, the date of the Warrant Subscription Agreement; and (ii) a premium of approximately 5.1% over the average closing price of HK\$0.257 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day. As at the date of this announcement, the Company has in total 622,500,000 Shares in issue. Assuming there is no further issue or repurchase of Shares and there is no adjustment to the Exercise Price, upon the exercise in full of the subscription rights attaching to the Warrants, 62,250,000 Warrant Shares will be allotted and issued, representing (i) 10.0% of the issued share capital of the Company as at the date of this announcement and (ii) approximately 9.1% of the issued share capital of the Company as enlarged by the allotment and issue of the Warrant Shares.

The net proceeds from the Loan Facility and the issue of the Warrant Shares upon the exercise in full of the subscription rights attaching to the Warrants amount to approximately HK\$66,600,000, which will be applied for reduction of the Group's indebtedness and as general working capital of the Group.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in the Warrant Shares. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchange.

Completion of the subscription pursuant to the Warrant Subscription Agreement is subject to the satisfaction of conditions precedent as set out below. As the subscription pursuant to the Warrant Subscription Agreement may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

INTRODUCTION

On 18 October 2012 after trading hours of the Stock Exchange, the Company and the Subscriber entered into the Loan Agreement pursuant to which the Subscriber (as lender) agreed to grant a Loan Facility up to an aggregate principal amount of HK\$50,000,000 to the Company (as borrower) for a term of five years. At the same time, the Company and the Subscriber also entered into the Warrant Subscription Agreement whereupon the Company agreed to issue and the Subscriber agreed to subscribe for the Warrants at the aggregate consideration of HK\$1.00.

Set out below are the principal terms of the Loan Agreement and the Warrants:

(i) LOAN AGREEMENT

Date

18 October 2012 (after trading hours)

Parties

- (a) Borrower: the Company
- (b) Lender: the Subscriber

As at the date of this announcement, to the best of the knowledge, information and belief of the Directors and having made all reasonable enquires, (i) the Subscriber and its ultimate beneficial owners are Independent Third Parties; (ii) the Subscriber and its ultimate beneficial owners and their respective parties acting in concert are independent of and not acting in concert with any directors, chief executive, or substantial shareholders of the Group; and (iii) the Subscriber is principally engaged in investment holding.

Other principal terms of the Loan Agreement

Principal amount: HK\$50,000,000, which can be drawn in 2 advances.

Interest rate: 6% per annum calculated from the date of drawdown to the Final Repayment Date (as defined below), which shall be payable annually in arrears.

A default interest of 38% per annum is payable in relation to overdue sum calculated from the due date to the actual date of payment.

Repayment Date: the date falling 60 months after the first drawdown of the Loan Facility (the “**Final Repayment Date**”)

The Subscriber is entitled to demand for early repayment after expiry of 15 months after the date of the first drawdown of the Loan Facility. Any outstanding amount under the Loan Facility (together with interest accrued) shall become immediately due and payable upon the happening of an event of default as set out in the Loan Agreement. Among other things, the change in control of the Company or the cessation of Dr. Jack Lau to remain as an executive director, chairman and the chief executive officer and/or a substantial shareholder of the Company shall constitute an event of default.

Conditions to drawdown: Save in relation to the drawdown of HK\$8,000,000 (the “**First Advance**”), advance of the Loan Facility is conditional upon, among others, the Stock Exchange having granted the listing of and permission to deal in the Warrant Shares and the issue of the Warrants within 30 days after the date of the Loan Agreement. In the event the aforesaid conditions cannot be fulfilled, the First Advance (together with interest accrued) shall become immediately due and payable.

The terms of the Loan Agreement (including the interest rates) were arrived at after arm’s length negotiations between the Company and the Subscriber with reference to the prevailing market rate. The Directors consider that the terms of the Loan Agreement (including the interest rates) were fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

(ii) WARRANT SUBSCRIPTION AGREEMENT

Date

18 October 2012 (after trading hours)

Parties

- (a) Issuer: the Company
- (b) Subscriber: the Subscriber

Consideration

The Warrants will be issued at the aggregate consideration of HK\$1.00.

Given the grant of the Loan Facility, the Directors consider that consideration for the issue of the Warrants is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

Securities to be issued

The Warrants, being unlisted warrants conferring rights to its holder to subscribe for Warrant Shares at the Exercise Price up to HK\$16,807,500 for a period of 5 years from the date of issue of the Instrument.

Conditions precedent

Completion is conditional upon:

- (a) (if required) the Listing Committee of the Stock Exchange having approved the issue of the Warrants either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object and the satisfaction of such conditions;
- (b) the Listing Committee having granted (either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object) the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon the exercise of the subscription rights attached to the Warrants; and
- (c) (if required) the Stock Exchange shall have cleared all announcement(s) and circular(s) (if necessary) required to be issued by the Company pursuant to the Listing Rules.

If the above conditions precedent are not fulfilled on or before 5:00 p.m. on the 30th day from the date of the Warrant Subscription Agreement or such later date as may be agreed between the Subscriber and the Company in writing, the Warrant Subscription Agreement will lapse and become null and void and the parties shall be released from all obligations hereunder, save for any liabilities for any antecedent breaches thereof.

None of the conditions above can be waived. Completion is not conditional upon the Loan Agreement having become unconditional nor is Completion conditional upon any drawdown having been made pursuant to the Loan Agreement.

Completion

Completion shall take place on the third business day after fulfilment of the conditions precedent set out above (or such other date as the Company and the Subscriber may agree).

PRINCIPAL TERMS OF THE WARRANTS

The Warrants shall be in registered form and constituted by the Instrument on Completion. The Warrants will rank *pari passu* in all respects among themselves.

The Warrants shall confer rights to its holder to subscribe for Warrant Shares at the Exercise Price up to HK\$16,807,500 for a period of 5 years from the date of issue of the Instrument.

Number of Warrant Shares issuable

Assuming there is no further issue or repurchase of Shares and there is no adjustment to the Exercise Price, upon the exercise in full of the subscription rights attaching to the Warrants, 62,250,000 Warrant Shares will be allotted and issued, representing (i) 10.0% of the issued share capital of the Company as at the date of this announcement and (ii) approximately 9.1% of the issued share capital of the Company as enlarged by the allotment and issue of the Warrant Shares.

Pursuant to Rule 15.02(1) of the Listing Rules, the Warrant Shares to be issued on exercise of the Warrants must not, when aggregated with all other equity securities remain to be issued on exercise of any other subscription rights (if all such rights were immediately exercised, whether or not such exercise is permissible), exceed 20% of the issued share capital of the Company at the time the Warrants are issued. Options granted under share option schemes which comply with Chapter 17 of the Listing Rules are excluded for the purpose of such limit. As at the date of this announcement, the Company has in issue outstanding option to subscribe for 62,250,000 Shares pursuant to the option agreement dated 11 August 2011, details of which are set out in the announcement of the Company dated 11 August 2011. Assuming the exercise in full of (i) the subscription rights attached to the aforesaid option and (ii) the subscription rights attaching to the Warrants, an aggregate of 124,500,000 new Shares will be allotted and issued, representing 20.0% of the issued share capital of the Company as at the date of this announcement.

Exercise Price

The warrants carry the rights to subscribe for Warrant Shares at the Exercise Price of initially HK\$0.27 per Warrant Share (subject to adjustment pursuant to the Instrument).

The initial Exercise Price of HK\$0.27 represents:

- (i) a premium of 8.0% over the closing price of HK\$0.25 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 5.1% over the average of the closing prices per Share of HK\$0.257 for the last five consecutive trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 4.7% over the average closing price per Share of HK\$0.258 for the last ten consecutive trading days up to and including the Last Trading Day.

The Exercise Price is subject to adjustments in the event of, among others, share consolidation, subdivision, capital distribution, issue of Shares by way of capitalisation, issue of Shares or other convertible security for cash, rights issue of securities of the Company, as well as repurchase of securities by the Company. Such adjustment will be certified by the auditors of the Company or an approved merchant bank.

The Exercise Price was determined after arm's length negotiations between the Company and the Subscriber, taking into account the recent trading prices of the Shares. The Directors consider that the Exercise Price is fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

Exercise Period

The subscription rights attaching to the Warrants can be exercised at any time during a period of 5 years from the date of issue of the Instrument.

If at any time the unexercised and outstanding amount of the Warrants is less than 10% of the aggregate amount of the Warrants issued under the Instrument, the Company may require the holders thereof either to exercise the Warrants or to allow them to lapse.

Listing

No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges, but the Company will apply to the Listing Committee for the listing of, and permission to deal in, the Warrant Shares on the Stock Exchange.

Ranking of the Warrant Shares

The Warrant Shares, when issued and fully paid, will rank pari passu in all respects with the existing issued Shares as at the date of tender of the subscription notice.

Transferability

The Warrants are transferable in whole amounts or integral multiples of the Exercise Price provided that no transfer shall be made to any connected persons of the Group or their respective parties acting in concert unless compliance of the Listing Rules and the Takeovers Code have been made..

Voting rights of the Warrants

Holder(s) of the Warrants will not have any right to attend or vote at any meeting of the Company by virtue of them being the holders of the Warrants.

GENERAL MANDATE TO ISSUE THE WARRANT SHARES

The Warrant Shares will be issued pursuant to the General Mandate. Immediately prior to entering into the Warrant Subscription Agreement, the General Mandate had not been utilised, thus the maximum number of new Shares which could be issued under the General Mandate was 124,500,000 Shares (not exceeding 20% of the aggregate nominal amount of the total issued share capital of the Company of 622,500,000 Shares as at the date of the AGM). The issue of the Warrant Shares is not subject to any Shareholders' approval.

REASON AND BENEFITS FOR ENTERING THE LOAN AGREEMENT AND WARRANTY SUBSCRIPTION AGREEMENT AND USE OF PROCEEDS

The Company is an investment holding company. The Group is engaged in research, design and development of digital signal processing (DSP) platform and the provision of embedded firmware and end-to-end turnkey solutions to customers for their DSP-based consumer electronic devices.

The net proceeds from the Loan Facility and the issue of the Warrant Shares upon the exercise in full of the subscription rights attaching to the Warrants amount to approximately HK\$66,600,000, which will be applied for reduction of the Group's indebtedness and as general working capital of the Group.

Assuming the exercise in full of the subscription rights attaching to the Warrants, the total net fund to be raised is approximately HK\$16,700,000. The net price to the Company of each Warrant Share, which is calculated by dividing the aggregate net proceeds from the exercise in full of the subscription rights attaching to the Warrants by the total number of the Warrant Shares, is approximately HK\$0.268.

The Directors also consider that the Loan Agreement and Warrant Subscription Agreement were entered into on normal commercial terms after arm's length negotiations between the Company and the Subscriber and that the terms of the Loan Agreement and the Warrant Subscription Agreement (including the consideration for the Warrants and the Exercise Price) are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole. The Directors also consider that Loan Facility and the issue of the Warrants to the Subscriber would enhance the gearing position of the Group, attract the desirous funding for business development and would provide the Group with an opportunity to raise further funds when the Subscriber exercises the subscription rights attaching to the Warrants.

SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 622,500,000 Shares in issue. The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the exercise in full of the subscription rights attaching to the Warrants (assuming that there will be no further changes in the issued share capital of the Company prior to such exercise and no adjustment to the Exercise Price) are as follows:

Shareholders	As at the date of this announcement		Immediately after the issue and allotment of all Warrant Shares	
	No. of Shares	%	No. of Shares	%
Swanland Management Limited (note 1)	125,592,340	20.17	125,592,340	18.34
Masteray Limited (note 1)	53,828,697	8.65	53,828,697	7.86
Ms. Loh, Jiah Yee Katherine (note 1)	3,145,000	0.51	3,145,000	0.46
Manyi Holdings Limited (note 2)	140,482,433	22.57	140,482,433	20.52
Dr. Wu Po Him, Philip (note 2)	1,599,142	0.26	1,599,142	0.23
Excel Direct Technology Limited (note 3)	11,903,210	1.91	11,903,210	1.74
Rochdale Consultancy Limited (note 4)	2,976,655	0.48	2,976,655	0.44
Mr. Tao Hong Ming	300,000	0.04	300,000	0.04
The Subscriber	-	-	62,250,000	9.09
Other public shareholders	282,672,523	45.41	282,672,523	41.28
Total	622,500,000	100.00	684,750,000	100.00

Notes

1. Masteray Limited (“Masteray”) is interested in 51% of the issued share capital in Swanland Management Limited (“Swanland”) and Masteray is owned as to 100% by Sea Progress Limited (“Sea Progress”), which, through a discretionary trust, is wholly-owned by Credit Suisse Trust Limited (“Credit Suisse”). Ms. Loh, Jiah Yee Katherine (“Ms. Loh”), the spouse of Dr. Lau, Jack (“Dr. Lau”), is the founder of a discretionary trust holding 179,421,037 Shares by Credit Suisse, and hence she is deemed to be interested in 182,566,037 Shares. Dr. Lau is deemed to be interested in all the Shares held by Ms. Loh.
2. Dr. Wu Po Him, Philip is the sole beneficial owner of Manyi Holdings Limited and hence is deemed to be interested in all the Shares held by Manyi Holdings Limited.
3. Excel Direct Technology Limited (“Excel Direct”) is owned as to 50% by Prof. Tsui. Hence, Prof. Tsui is deemed to be interested in the Shares held by Excel Direct by virtue of Excel Direct being controlled by Prof. Tsui.
4. Rochdale Consultancy Limited (“Rochdale”) is owned as to 50% by Prof. Cheng. Hence, Prof. Cheng is deemed to be interested in the Shares held by Rochdale by virtue of Rochdale being controlled by Prof. Cheng.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company had not conducted any fund raising activities in the twelve months immediately preceding the date of this announcement.

GENERAL

Completion of the Warrant Subscription is subject to the satisfaction of the conditions precedent in the Warrant Subscription Agreement. As the Warrant Subscription may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms and expressions have the following meanings:–

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code;
“AGM”	the annual general meeting of the Company held on 1 June 2012;
“associate”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“Company”	Perception Digital Holdings Limited, a company incorporated in the Cayman Islands, the issued Shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	completion of the subscription of Warrants pursuant to the Warrant Subscription Agreement;
“connected person”	has the meaning ascribed to it under Rule 1.01 of the Listing Rules and as extended by Rule 14A.11 of the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Exercise Price”	the initial subscription price of HK\$0.27 per Warrant Share (subject to adjustment pursuant to the Instrument) at which holder(s) of the Warrants may subscribe for the Warrant Shares;

“General Mandate”	the general mandate granted to the Directors at the AGM, pursuant to which a maximum of 124,500,000 new Shares, being the maximum number of Shares in issue as at the date of the AGM, might be allotted and issued;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Third Party”	person(s) who or company(ies) together with its/their ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are third party(ies) independent of the Company and its connected person(s) in accordance with the Listing Rules;
“Instrument”	the deed poll constituting the Warrants to be executed by the Company on Completion;
“Last Trading Day”	18 October 2012, being the date of the Warrant Subscription Agreement;
“Listing Committee”	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan Agreement”	the loan agreement dated 18 October 2012 entered into between the Company and the Subscriber in relation to the Loan Facility;
“Loan Facility”	the loan facility of up to HK\$50,000,000 bearing interest rate of 6% per annum for a term of five years, as granted by the Subscriber to the Borrower pursuant to the Loan Agreement;
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company;
“Shareholder(s)”	the holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Subscriber”	Capital Fame Technology Limited, a company incorporated in the British Virgin Islands with limited liability and an Independent Third Party;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;
“Warrant(s)”	unlisted warrants to be issued by the Company entitling the holder thereof to subscribe in cash in aggregate up to HK\$16,807,500 for the Warrant Shares at the Exercise Price (subject to adjustment pursuant to the Instrument) at any time for a period of 5 years from the date of the Instrument;
“Warrant Shares”	the new Shares to be allotted and issued by the Company upon the exercise in full of the subscription rights attaching to the Warrants;
“Warrant Subscription Agreement”	the conditional warrant subscription agreement dated 18 October 2012 entered into between the Subscriber and the Company in relation to the subscription of Warrants;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong; and
“%”	per cent.

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

Hong Kong, 18 October 2012

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