
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Perception Digital Holdings Limited (“Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser, the transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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)

**(1) PROPOSED OPEN OFFER OF NOT LESS THAN 1,344,600,000
OFFER SHARES AND NOT MORE THAN 1,367,309,868 OFFER SHARES
AT HK\$0.05 PER OFFER SHARE ON THE BASIS OF
6 OFFER SHARES FOR EVERY 5 EXISTING SHARES
HELD ON THE RECORD DATE;
(2) GRANT OF SPECIFIC MANDATE
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

Beijing Securities
Beijing Securities Limited
北京證券有限公司

A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 31 to 52 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 30 of this circular.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriters the right to terminate the obligations of the Underwriters thereunder on the occurrence of certain events. These certain events are set out in the section headed “Termination of the Underwriting Agreement” on pages 11 to 12 of this circular. If the Underwriting Agreement is terminated by the Underwriters or does not become unconditional on or before 31 March 2014, the Open Offer will not proceed.

A notice convening the EGM to be held at 9:00 a.m. on Thursday, 19 December 2013 is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire. In such event, the instrument appointing a proxy will be deemed to be revoked.

The Open Offer is conditional, inter alia, upon the fulfillment of the conditions set out under the section headed “Conditions of the Open Offer” of this circular. In particular, the Open Offer is subject to the completion of the Capital Reduction and the Underwriters not terminating the Underwriting Agreement in accordance with the terms set out therein. Accordingly, the Open Offer may or may not proceed. Shareholders or other persons contemplating selling or purchasing Shares up to the date when the conditions of the Open Offer are fulfilled will bear the risk that the Open Offer may not become unconditional and may not proceed. Shareholders and the public are reminded to exercise caution when dealing in the securities of the Company.

CONTENTS

	<i>Page</i>
Definitions	1
Expected Timetable	8
Termination of the Underwriting Agreement	11
Letter from the Board	13
Letter from the Independent Board Committee	30
Letter from the Independent Financial Adviser	31
Appendix I – Financial information of the Group	53
Appendix II – Unaudited pro forma financial information of the Group	57
Appendix III – General information	63
Notice of Extraordinary General Meeting	EGM-1

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed thereto under the Hong Kong Code on Takeovers and Mergers
“Announcement”	the announcement of the Company dated 14 November 2013 in relation to, among other things, the Open Offer and the Underwriting Agreement
“Application Form(s)”	the form(s) of application in respect of the Open Offer to be issued to the Qualifying Shareholders
“associate(s)”	has the same meaning ascribed to it in the Listing Rules
“Board”	the board of the Directors
“Business Day”	a day (excluding Saturday and other general holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning is hoisted or remains hoisted or in effect between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
“BVI”	British Virgin Islands
“Capital Fame”	Capital Fame Technology Limited, a company incorporated in the BVI with limited liability which is wholly-owned by Mr. Chan Yuen Ming and interested in 120,000,000 Shares as at the Latest Practicable Date
“Capital Fame Undertaking”	the undertaking given by Capital Fame in favour of the Company and the Underwriters undertaking not to exercise the rights to any warrants between the date of the Underwriting Agreement up to and including the Record Date and that it will not dispose of any of the Warrants held by it between the date of the Underwriting Agreements and up to the Record Date

DEFINITIONS

“Capital Reduction”	the reduction of the paid-up capital of each of the issued Shares by cancelling paid-up capital of HK\$0.09 per share so that the nominal value of each issued Share will be reduced from HK\$0.10 to HK\$0.01 as announced by the Company on 8 August 2013
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China Galaxy”	China Galaxy International Securities (Hong Kong) Co., Limited, a licensed corporation permitted to conduct Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance) under the SFO
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	Perception Digital Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1822)
“Completion”	completion of the Open Offer
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and approve, <i>inter alia</i> , the Open Offer and the Specific Mandate
“Excluded Shareholder(s)”	those Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions provided by the legal advisers, consider it necessary or expedient not to offer the Offer Shares to such Overseas Shareholder(s) on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place

DEFINITIONS

“Final Acceptance Date”	17 January, 2014 or such other date as may be agreed between the Company and the Underwriters and described as the latest date for acceptance of the Offer Shares in the Prospectus
“Group”	the Company and its subsidiaries
“Head & Shoulders”	Head & Shoulders Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser”	Beijing Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholder(s)”	the Shareholder(s), other than the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates, who are not involved in, nor interested in, the Underwriting Agreement
“Independent Third Parties”	a person who, as far as the Directors are aware after having made all reasonable enquires, is not a connect person of our Company within the meaning of the Listing Rules
“Keen Platinum”	Keen Platinum Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. Mung Wai Ming, an executive Director, and interested in 65,441,500 Shares as at the Latest Practicable Date
“Last Trading Day”	14 November 2013, being the last trading day on which the Company and the Underwriters entered into the Underwriting Agreement

DEFINITIONS

“Latest Practicable Date”	Thursday, 28 November 2013, being the latest practicable date prior to the date of this circular for the purpose of ascertaining certain information referred to in this circular
“Latest Time for Acceptance”	4:00 p.m. on Friday, 17 January 2014 or such later time to be agreed in writing between the Company and the Underwriters, being the latest time for application of the Open Offer
“Latest Time for Termination”	4:00 p.m. on the 2nd Business Day following the Final Acceptance Date
“Listing Committee”	has the meaning attributed to that term in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 March 2014, being the latest date for the Open Offer to be unconditional
“Masteray”	Masteray Limited, a company incorporated in the BVI with limited liability
“Ms. Loh”	Ms. Loh Jiah Yee, Katherine, the spouse of Dr. Jack Lau, a past Director
“Offer Share(s)”	the new Shares proposed to be issued and allotted under the Open Offer, being not less than 1,344,600,000 Shares and not more than 1,367,309,868 Shares to the Qualifying Shareholders for subscription on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
“Open Offer”	the proposed issue of the Offer Shares at the subscription price of HK\$0.05 on the basis of six (6) Offer Shares for every five (5) Shares held on the Record Date to the Qualifying Shareholders upon the terms and conditions as described in this circular

DEFINITIONS

“Option Agreement”	the option agreement dated 11 August 2011 entered into between the Company and Teleepoch Limited in relation to the Options, details of which are set out in the announcement of the Company dated 11 August 2011
“Options”	the options granted under the Option Agreement
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is(are) in a place(s) outside Hong Kong
“PRC”	The People’s Republic of China
“Prospectus”	a prospectus relating to the Open Offer to be despatched to the Qualifying Shareholders and the Excluded Shareholders
“Prospectus Documents”	the Prospectus and the Application Form
“Qualifying Shareholder(s)”	Shareholder(s), other than the Excluded Shareholders, whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date
“Record Date”	Thursday, 2 January 2014, being the record date for determining the entitlements of the Shareholders to participate in the Open Offer
“Registrar”	Tricor Investor Services Limited, the Hong Kong Branch Share Registrar of the Company
“Settlement Date”	the date being the 3rd Business Day after the Final Acceptance Date or such later date as the Company and the Underwriters may agree
“Share(s)”	ordinary share(s) of HK\$0.10 each (or following completion of the Capital Reduction, ordinary shares of HK\$0.01 each) in the share capital of the Company

DEFINITIONS

“Share Options”	the outstanding options held by the Director, employees and consultants of the Group to subscribe for 2,124,444 new Shares pursuant to the Share Option Scheme
“Share Option Scheme”	the Company’s share option scheme adopted on 27 November 2009
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders Undertakings”	the undertaking in which each of the Undertaking Shareholders has irrevocably undertaken to each of the Company and the Underwriters that (i) it will accept or procure its associates to accept all the Offer Shares to be provisionally allotted to it and its associates pursuant to the Open Offer in respect of the Shares held by it and its associates as at the Record Date; and (ii) it will not dispose of any Shares held by it between the date hereof up to and including the Record Date
“Specific Mandate”	the specific mandate to be sought from the Shareholders at the EGM to grant the authority to the Board for the allotment and issue up to a maximum of 10,000,000 Shares as a result of the adjustment to the exercise price of the Options in light of the Open Offer
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Swanland”	Swanland Management Limited, a company incorporated in the BVI with limited liability
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Undertaking Shareholders”	Keen Platinum, Capital Fame, Swanland, Masteray and Ms. Loh

DEFINITIONS

“Underwriters”	China Galaxy International Securities (Hong Kong) Co., Limited and Head & Shoulders Securities Limited
“Underwriting Agreement”	the underwriting agreement dated 14 November 2013 entered into between the Company and the Underwriters and the Undertaking Shareholders in relation to the underwriting arrangement of the Open Offer
“Underwritten Shares”	all Offer Shares which are not subject of the Shareholders Undertakings, being not less than 793,451,934 Offer Shares and not more than 816,161,802 Offer Shares
“Warrants”	the outstanding warrants issued by the Company entitling Capital Fame, to subscribe in cash in aggregate up to HK\$16,807,500 for 73,076,087 new Shares at a subscription price of HK\$0.23 (subject to adjustment, if any).
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%” or “per cent.”	percentage or per centum

EXPECTED TIMETABLE

The expected timetable for the Open Offer set out below is indicative only and it has been prepared on the assumption that the Open Offer will be approved by the Independent Shareholders at the EGM. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.

Event	Time and Date
Despatch of circular with notice and proxy forms in relation to the EGM	Tuesday, 3 December 2013
Latest time for return of proxy form of the EGM	9:00 a.m. on Tuesday, 17 December 2013
Expected date and time of the EGM	9:00 a.m. on Thursday, 19 December 2013
Announcement of poll results of the EGM	Thursday, 19 December 2013
Last day of dealing in Shares on a cum-entitlement basis	Friday, 20 December 2013
First day of dealing in Shares on an ex-entitlement basis	Monday, 23 December 2013
Latest time for lodging transfer of Shares in order to qualify for the Open Offer.	4:30 p.m. on Friday, 27 December 2013
Register of members of the Company closes (both dates inclusive)	Monday, 30 December 2013 to Thursday, 2 January 2014
Record Date	Thursday, 2 January 2014
Register of members of the Company re-opens	Friday, 3 January 2014
Despatch of the Prospectus Documents	Friday, 3 January 2014
Latest time for acceptance of, and payment for the Offer Shares	4:00 p.m. on Friday, 17 January 2014

EXPECTED TIMETABLE

Event	Time and Date
Open Offer expected to become unconditional	Wednesday, 22 January 2014
Announcement of results of acceptance of the Open Offer	Friday, 24 January 2014
Despatch of certificates for Offer Shares.	Monday, 27 January 2014
Commencement of dealings in Offer Shares	Tuesday, 28 January 2014

All times and dates specified in this circular refer to Hong Kong local times.

The Open Offer is conditional upon, among other things, the completion of the Capital Reduction, details of which please refer to the Company's announcements dated 8 August 2013, 19 August 2013 and 12 September 2013. The expected effective date of the Capital Reduction is on Monday, 20 January 2014. The expected date for the commencement of dealings in new Shares on the Stock Exchange after the Capital Reduction becomes effective is on Tuesday, 21 January 2014. Such effective date of the Capital Reduction may vary due to the timetable and availability of the Court, additional time required for compliance with the regulatory requirements in the Cayman Islands and/or with any requirements imposed by the Court or varied by the Company. If the Capital Reduction does not become effective on or before the Long Stop Date (or such later date or dates as may be agreed between the Company and the Underwriters), the Open Offer will not proceed and all the money received from the Shareholders who have subscribed for the Offer Shares shall be returned to the respective Shareholders within five Business Days after such date.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OFFER SHARES

All times in this circular refer to Hong Kong time. The Latest Time for Acceptance of and payment for the Offer Shares will not take place at the time stated above if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Friday, 17 January 2014. Instead the Latest Time for Acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Friday, 17 January 2014. Instead the Latest Time for Acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance of and payment for the Offer Shares does not take place on Friday, 17 January 2014, the dates mentioned in the section headed “Expected Timetable” above may be affected. The Company will notify the Shareholders by way of announcements on any change to the expected timetable as soon as practicable.

TERMINATION OF THE UNDERWRITING AGREEMENT

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriting Agreement contains provisions granting the Underwriters, by notice in writing, the right to terminate the Underwriters' obligations thereunder on the occurrence of certain events. The Underwriters may terminate the Underwriting Agreement on or before the Latest Time for Termination if anytime on or before the Latest Time for Termination:

- (i) any of the Underwriters shall become aware of the fact that, or shall have reasonable cause to believe that any of the warranties in the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriters) material in the context of the Open Offer; or
- (ii) there shall be:
 - (a) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
 - (b) any change in local, national or international financial, political, industrial or economic conditions;
 - (c) any change of an exceptional nature in local, national or international equity securities or currency markets;
 - (d) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
 - (e) any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
 - (f) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of 10 trading days (as defined in the Listing Rules) other than relating to the Open Offer;
 - (g) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere

TERMINATION OF THE UNDERWRITING AGREEMENT

which is or are, in the reasonable opinion of the Underwriters:–

- (1) likely to have a material adverse effect on the business, financial position or prospects of the Group taken as a whole; or
- (2) likely to have a material adverse effect on the success of the Open Offer or the level of Offer Shares to be taken up; or
- (3) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Open Offer,

then the Underwriters may, by notice in writing given to the Company on or before the Latest Time for Termination, rescind the Underwriting Agreement and thereupon all obligations of the Underwriters hereunder shall cease and determine and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement (save for any antecedent breaches hereof) and the Open Offer shall not proceed.

If the Underwriting Agreement is terminated by the Underwriters on or before the aforesaid deadline or does not become unconditional on or before Long Stop Date, the Open Offer will not proceed.

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. Mung Wai Ming
Ms. Liu Yee Nee
Mr. Lee Rabi

Independent non-executive Directors:

Mr. William Keith Jacobsen
Ms. Zhou Jing
Mr. Ng Wai Hung

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

3 December 2013

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED OPEN OFFER OF NOT LESS THAN 1,344,600,000
OFFER SHARES AND NOT MORE THAN 1,367,309,868 OFFER SHARES
AT HK\$0.05 PER OFFER SHARE ON THE BASIS OF
6 OFFER SHARES FOR EVERY 5 EXISTING SHARES
HELD ON THE RECORD DATE;
(2) GRANT OF SPECIFIC MANDATE
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to, among other matters, the Open Offer and the Underwriting Agreement.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further details regarding the Open Offer, the Underwriting Agreement, the Specific Mandate, including, amongst others, (i) a letter from the Independent Board Committee to the Independent Shareholders setting out their advice in relation to the Underwriting Agreement, the Open Offer and the absence of excess application arrangement; (ii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Underwriting Agreement, the Open Offer and the absence of excess application arrangement; together with (iii) a notice of the EGM.

PROPOSED OPEN OFFER

Issue statistics

Basis of the Open Offer:	Six (6) Offer Shares for every five (5) Shares held on the Record Date and payable in full on acceptance
Number of Shares in issue as at the Latest Practicable Date:	1,120,500,000 Shares
Number of Offer Shares:	Not less than 1,344,600,000 Offer Shares (assuming no outstanding and vested Share Options and Options are exercised on or before the Record Date) and not more than 1,367,309,868 Offer Shares (assuming all outstanding and vested Share Options and Options are exercised in full on or before the Record Date)
Aggregate nominal value of the Offer Shares (before the completion of the Capital Reduction):	Not less than HK\$134,460,000.00 and not more than HK\$136,730,986.80
Aggregate nominal value of the Offer Shares (after the completion of Capital Reduction):	Not less than HK\$13,446,000.00 and not more than HK\$13,673,098.68
Subscription price:	HK\$0.05
Enlarged issued share capital of the Company upon Completion:	Not less than 2,465,100,000 Shares but not more than 2,506,734,762 Shares

LETTER FROM THE BOARD

Funds raised before expenses:	Not less than approximately HK\$67.2 million and not more than approximately HK\$68.4 million
Number of Underwritten Shares underwritten by the Underwriters:	Not less than 793,451,934 Offer Shares and not more than 816,161,802 Offer Shares

As at the Latest Practicable Date, there were outstanding Share Options conferring rights on the holders thereof to subscribe for up to 2,124,444 new Shares which are vested and exercisable at HK\$0.646 per Share (subject to adjustment, if any) during an exercise period from 26 March 2012 to 25 March 2014.

As at the Latest Practicable Date, there were outstanding Options conferring rights on the holders thereof to subscribe for up to 67,472,775 new Shares, of which 16,800,450 Options are vested and exercisable at HK\$0.351 per Share (subject to adjustment, if any) during an exercise period from 11 November 2011 to 10 August 2016 and 50,672,325 Options are yet to be vested and exercisable and will remain unvested and non-exercisable prior to the Completion pursuant to the terms of the Option Agreement.

As at the Latest Practicable Date, there were outstanding Warrants conferring rights on Capital Fame, a substantial Shareholder, to subscribe in cash in aggregate up to 73,076,087 new Shares at a subscription price of HK\$0.23 (subject to adjustment, if any). Capital Fame has given an irrevocable undertaking in favour of the Company and the Underwriters not to exercise any Warrants to subscribe for new Shares between the date of the Underwriting Agreement up to and including the Record Date; and not to dispose of any Warrants held by it between the date of the Underwriting Agreement up to and including the Record Date.

Assuming no outstanding and vested Share Options and Options are exercised on or before the Record Date, the minimum number of Offer Shares in aggregate of 1,344,600,000 Shares to be allotted and issued represents (i) 120.00% of the existing issued share capital of the Company; and (ii) approximately 54.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after Completion.

Assuming all outstanding and vested Share Options and Options are exercised in full on or before the Record Date, the maximum number of Offer Shares of 1,367,309,868 to be allotted and issued represents (i) 122.03% of the existing issued share capital of the Company; and (ii) approximately 54.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after Completion.

LETTER FROM THE BOARD

As at the Latest Practicable Date, save for the outstanding Share Options, Options and the Warrants as mentioned above, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares and rights over Shares. No Shares shall be allotted or issued between the date of the Underwriting Agreement and up to, and including, the Record Date (other than pursuant to the outstanding and vested of the Share Options and Options).

Subscription Price

The subscription price per Offer Share was arrived at after arm's length negotiation between the Company and the Underwriters under prevailing market conditions and the net asset value of the Company. The Directors consider that the discount would encourage the Qualifying Shareholders to participate in the Open Offer, which would enable the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group. The Directors consider the terms of the Open Offer, including the Subscription Price, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The subscription price of HK\$0.05 per Offer Share is payable in full upon application.

The subscription price per Offer Share represents:

- (i) a discount of approximately 73.7% to the closing price of HK\$0.190 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 74.2% to the average closing price of HK\$0.194 per Share for the last five consecutive trading days quoted on the Stock Exchange up to and including the Last Trading Day;
- (iii) a discount of approximately 75.2% to the average closing price of HK\$0.202 per Share for the last ten consecutive trading days quoted on the Stock Exchange up to and including the Last Trading Day;
- (iv) a premium of approximately 92.3% to the net asset value per Share of approximately HK\$0.026 based on the latest unaudited interim net asset value of the Group as at 30 June 2013 and the Shares in issue as at the Latest Practicable Date; and
- (v) a discount of approximately 64.0% to the closing price of HK\$0.139 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE BOARD

Conditions of the Open Offer

The Open Offer is subject to the fulfillment (or waiver, if applicable) of the following conditions:

- a) the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly certified by two directors of the Company (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) not later than the date of despatch of the Prospectus Documents and in compliance with the Listing Rules and the Companies Ordinance;
- b) the posting of the Prospectus Documents to Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Excluded Shareholders, if any, for information purposes only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the date of despatch of the Prospectus Documents;
- c) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and permission to deal in, all the Offer Shares;
- d) the Underwriting Agreement not being terminated pursuant to the terms therein;
- e) the passing by the Independent Shareholders at the EGM of an ordinary resolution to approve the Open Offer (including, but not limited to, the exclusion of the offer of the Open Offer to the Excluded Shareholders);
- f) the Shares remained listed on the Stock Exchange at all times prior to the Settlement Date and the current listing of the Shares not having been withdrawn and there is no indication being received from the Stock Exchange that the listing of the Shares may be withdrawn prior to the Settlement Date;
- g) completion of the Capital Reduction in all respects;
- h) compliance by the Company with all its obligations under the Underwriting Agreement; and
- i) the obligations of the Underwriters under the Underwriting Agreement not being terminated by the Underwriters in accordance with the terms thereof.

LETTER FROM THE BOARD

In any event of the above conditions (a) to (i) not being fulfilled or, with respect to conditions (f) and (i), waived in whole or in part by the Underwriters on or before the Long Stop Date (or such later date or dates as may be agreed between the Company and the Underwriters) or if the Underwriting Agreement shall be rescinded, all obligations and liabilities of the parties to the Underwriting Agreement shall forthwith cease and determine and no party shall have any claim against the other (save for any antecedent breaches thereof).

As at the Latest Practicable Date, none of the condition have been fulfilled.

Status of the Offer Shares

The Offer Shares, when allotted and fully paid, will rank pari passu in all respects with the Shares then in issue. Holders of Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of their respective allotment and issue (as the case may be).

Fractional entitlements to the Offer Shares

Entitlements to the Offer Shares will be rounded down to the nearest whole number. Fractional entitlements to the Offer Shares will not be allotted and will be aggregated and dealt with as Offer Shares not taken up in accordance with the Underwriting Agreement.

Odd lots arrangement

There will be no odd lot arrangement in relation to and as a result of the Open Offer.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Offer Shares.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Offer Shares on the Stock Exchange or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

LETTER FROM THE BOARD

Dealings in the Offer Shares, which are registered in the register of members of the Company in Hong Kong will be subject to the payment of stamp duty in Hong Kong.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company on the Record Date and not be an Excluded Shareholder.

The Company will send the Prospectus Documents, including the Prospectus and the Application Form, to the Qualifying Shareholders only. Subject to the advice of the Company's legal advisers in the relevant jurisdictions and to the extent reasonably practicable, the Company will send copies of the Prospectus to the Excluded Shareholders (if any) and if required by the terms of the Share Options Scheme, the terms and conditions of the Option Agreement and the instrument of the Warrants, to the respective holders of the Share Options, Options and the Warrants for their information only but will not send any Application Form to them.

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (with the relevant share certificate(s)) with the Registrar at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Friday, 27 December 2013. The last day of dealings in the Shares on a cum-entitlement basis is Friday, 20 December 2013. The Shares will be dealt with on an ex-entitlement basis from Monday, 23 December 2013.

Holders of the Share Options and the Options who wish to participate in the Open Offer should exercise the subscription rights attaching to the Share Options and Options respectively in accordance with their respective terms and conditions thereof and be registered as holders of the Shares allotted and issued to them pursuant to such exercise with the Company before 4:30 p.m. on Friday, 27 December 2013.

Qualifying Shareholders who take up their pro-rata entitlement in full will not suffer any dilution to their interests in the Company. If a Qualifying Shareholder does not take up any of its/his/her entitlement under the Open Offer, its/his/her proportionate shareholding in the Company will be diluted.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable or capable of renunciation and there will not be any trading in the assured entitlements on the Stock Exchange.

LETTER FROM THE BOARD

Closure of register of members

The registers of members of the Company are expected to be closed from Monday, 30 December 2013 to Thursday, 2 January 2014, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfers of Shares will be registered during the book closure period.

Certificates of the Offer Shares and refund cheques

Subject to the Open Offer becoming unconditional, share certificates for the Offer Shares are expected to be posted on or before Monday, 27 January 2014 by ordinary post to those Qualifying Shareholders who have accepted and paid for their Offer Shares, at their own risks. Refund cheques in respect of the Offer Shares if the Open Offer is terminated or lapsed on or before the Long Stop Date for the fulfillment of the conditions of the Open Offer will be despatched by ordinary post within five Business Days after such date to the applicants at their own risk.

Rights of Excluded Shareholders

If there are any Overseas Shareholders at the close of business on the Record Date, such Overseas Shareholders may or may not be eligible to take part in the Open Offer.

Based on the register of members of the Company as at the Latest Practicable Date, the Company had 1 Overseas Shareholder whose address is in the United States of America. The Directors will comply with Notes to Rule 13.36(2) of the Listing Rules and make enquiries regarding the feasibility of extending the Open Offer to the Overseas Shareholders taking into consideration the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange for the issue of Offer Shares to the Overseas Shareholder.

If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any applicable requirements of the relevant regulatory body or stock exchange in that place, not to offer the Offer Shares to such Overseas Shareholder, the Open Offer will not be extended to the Overseas Shareholder who will become the Excluded Shareholder. The results of the enquiries and the basis of the exclusion of the Overseas Shareholders will be included in the Prospectus.

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong.

LETTER FROM THE BOARD

No application for excess Offer Shares

There is no arrangement for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements. Considering that each Qualifying Shareholder will be given an equal and fair opportunity to participate in the Company's future development by subscribing for his/her/its proportionate entitlement under the Open Offer, if application for excess Offer Shares is arranged, the Company will be required to put in additional effort and costs to administer the excess application procedures, which is not cost-effective from the viewpoint of the Company. Any Offer Shares not taken up by the Qualifying Shareholders will be taken up by the Underwriters pursuant to the terms and conditions of the Underwriting Agreement.

Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.

UNDERWRITING AGREEMENT

Date: 14 November 2013

Underwriters: (1) China Galaxy International Securities (Hong Kong) Co., Limited ("**China Galaxy**"); and
(2) Head & Shoulders Securities Limited ("**Head & Shoulders**")

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriters and their respective ultimate beneficial owners are Independent Third Parties.

Number of Shares to be underwritten: All Offer Shares which are not subject to the Shareholders Undertakings, being not less than 793,451,934 Offer Shares and not more than 816,161,802 Offer Shares

Commission: 2.5% of the aggregate subscription price in respect of the number of Underwritten Shares. The commission was determined after arm's length negotiation between the Company and the Underwriters, and the Directors are of the view that it is fair and reasonable

The Directors consider that the terms of the Underwriting Agreement are on normal commercial terms and are fair and reasonable as far as the Company and the Shareholders are concerned.

LETTER FROM THE BOARD

In the event that the Underwriters are required to take up the Underwritten Shares pursuant to their underwriting:

- (a) Each of the Underwriters together with its respective parties acting in concert, will not own 19.99% or more of the issued share capital of the Company immediately after the Open Offer; and
- (b) The Underwriters shall take up such number of Offer Shares and take relevant actions as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with.

Shareholders Undertakings

As at the Latest Practicable Date, (i) Keen Platinum, a company incorporated in the BVI with limited liability and wholly-owned by Mr. Mung Wai Ming, an executive Director, was interested in 65,441,500 Shares, representing approximately 5.84% of the existing issued share capital of the Company; (ii) Capital Fame was interested in 120,000,000 Shares, representing approximately 10.71% of the existing issued share capital of the Company; and (iii) Swanland, Masteray and Ms. Loh, all being associates of Dr. Jack Lau, a past Director, were collectively interested in 273,848,555 Shares, representing approximately 24.44% of the existing issued share capital of the Company.

Each of the Undertaking Shareholders has severally and irrevocably undertaken to each of the Company and the Underwriters that (i) it/she will accept or procure its/her associates to accept all the Offer Shares to be provisionally allotted to it/her and its/her associates pursuant to the Open Offer in respect of the Shares held by it/her and its/her associates as at the Record Date; and (ii) it/she will not dispose of any Shares held by it/her between the date hereof up to and including the Record Date.

Save for the Shareholders Undertakings, as at the Latest Practicable Date, the Board had not received any information from any Shareholders of their intentions to take up the Offer Shares to be allotted to them.

Capital Fame Undertaking

As at the Latest Practicable Date, Capital Fame held the Warrants which entitle it to subscribe in cash in aggregate up to HK\$16,807,500 for 73,076,087 new Shares at a subscription price of HK\$0.23 (subject to adjustment, if any). Capital Fame has irrevocably undertaken to the Company and the Underwriters that (i) it will not exercise any Warrants to subscribe for new Shares between the date of the Underwriting Agreement up to and including the Record Date; and (ii) it will not dispose of any Warrants held by it between the date of the Underwriting Agreement up to and including the Record Date.

LETTER FROM THE BOARD

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Group is principally engaged in the provision of embedded firmware and turnkey solutions for consumer electronics devices, with services such as concept consultation, technology feasibility study, embedded firmware design and development, industrial design, intellectual property research, manufacturing and packaging, logistic management and after sales support.

As disclosed in the interim report of the Company for the six months ended 30 June 2013, the Group's business has been facing successive challenges due to the prolonged instability of the global economic condition. The revenue of the Group decreased by approximately 44.1% from approximately HK\$169.0 million in the first half of 2012 to approximately HK\$94.4 million in the first half of 2013. The Group's net loss was approximately HK\$17.3 million in the first half of 2013. As at 30 June 2013, the Group had bank and other borrowings amounting to HK\$82.5 million.

With a view to enlarging the capital base and strengthening the financial position of the Group, the Company believes that the Open Offer is in the best interests of the Group and the Shareholders as a whole since it would enable the Shareholders to maintain their respective pro rata shareholding interest in the Group and participate in the future growth of the Group by participating in the Open Offer.

The estimated net proceeds from the Open Offer will be approximately HK\$64.0 million (assuming no further issue of new Shares on or before Record Date). The Company intends to apply the net proceeds from the Open Offer as to (i) 50% for general working capital; and (ii) 50% for reduction of the Group's indebtedness.

WARNING OF THE RISKS OF DEALING IN SHARES

The Open Offer is conditional, inter alia, upon the fulfillment of the conditions set out under the section headed "Conditions of the Open Offer" of this circular. In particular, the Open Offer is subject to the completion of the Capital Reduction and the Underwriters not terminating the Underwriting Agreement in accordance with the terms set out therein. Accordingly, the Open Offer may or may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares up to the date when the conditions of the Open Offer are fulfilled will bear the risk that the Open Offer could not become unconditional and may not proceed. Shareholders and the public are reminded to exercise caution when dealing in the securities of the Company.

LETTER FROM THE BOARD

CHANGES IN SHAREHOLDING STRUCTURE

Set out below is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Completion assuming no acceptance by the Qualifying Shareholders other than the Undertaking Shareholders and no outstanding and vested Share Options and Options are exercised on or before the Record Date; (iii) immediately after the Completion assuming full acceptance by the Qualifying Shareholders and no outstanding and vested Share Options and Options are exercised on or before the Record Date; (iv) immediately after the Completion assuming no acceptance by the Qualifying Shareholders other than the Undertaking Shareholders and all outstanding and vested Share Options and Options are exercised in full; and (v) immediately after the Completion assuming full acceptance by the Qualifying Shareholders and all outstanding and vested Share Options and Options are exercised in full. For illustration purpose, it is assumed that there are no Excluded Shareholders under the Open Offer.

Holder	(i) As at the Latest Practicable Date		(ii) Immediately after the completion of the Open Offer assuming no acceptance by the Qualifying Shareholders other than the Undertaking Shareholders and no outstanding and vested Share Options and Options are exercised on or before the Record Date		(iii) Immediately after the completion of the Open Offer assuming full acceptance by the Qualifying Shareholders and no outstanding and vested Share Options and Options are exercised on or before the Record Date		(iv) Immediately after the completion of the Open Offer assuming no acceptance by the Qualifying Shareholders other than the Undertaking Shareholders and all outstanding and vested Share Options and Options are exercised on or before the Record Date		(v) Immediately after the completion of the Open Offer assuming full acceptance by the Qualifying Shareholders and all outstanding and vested Share Options and Options are exercised on or before the Record Date	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Current Directors										
Keen Platinum (Note 1)	65,441,500	5.84%	143,971,300	5.84%	143,971,300	5.84%	143,971,300	5.74%	143,971,300	5.74%
Mr. Lee Rabi	270,000	0.02%	270,000	0.01%	594,000	0.02%	378,390	0.02%	832,458	0.03%
Current director of a subsidiary of the Company										
	-	-	-	-	-	-	162,585	0.01%	357,687	0.02%
Past Directors										
Swanland (Note 2)	188,388,510	16.81%	414,454,722	16.81%	414,454,722	16.81%	414,454,722	16.53%	414,454,722	16.53%
Masteray (Note 2)	80,743,045	7.21%	177,634,699	7.21%	177,634,699	7.21%	177,634,699	7.09%	177,634,699	7.09%
Ms. Loh (Note 2)	4,717,000	0.42%	10,377,400	0.42%	10,377,400	0.42%	10,377,400	0.41%	10,377,400	0.41%
Dr. Jack Lau and his associates (Note 2)	273,848,555	24.44%	602,466,821	24.44%	602,466,821	24.44%	602,466,821	24.03%	602,466,821	24.03%
Excel Direct Technology Limited (Note 3)	11,903,210	1.06%	11,903,210	0.48%	26,187,062	1.06%	11,903,210	0.47%	26,187,062	1.05%
Rochdale Consultancy Limited ("Rochdale") (Note 4)	2,976,665	0.27%	2,976,665	0.12%	6,548,663	0.27%	2,976,665	0.12%	6,548,663	0.26%
Substantial Shareholders										
The University of Hong Kong and its associate (Note 5)	140,482,433	12.54%	140,482,433	5.70%	309,061,349	12.54%	140,482,433	5.61%	309,061,349	12.33%
Capital Fame	120,000,000	10.71%	264,000,000	10.71%	264,000,000	10.71%	264,000,000	10.53%	264,000,000	10.53%
Underwriter(s)	-	-	793,451,934	32.19%	-	-	816,161,802	32.56%	-	-
Public Shareholders										
	505,577,637	45.12%	505,577,637	20.51%	1,112,270,805	45.12%	524,231,556	20.91%	1,153,309,422	46.01%
Total	1,120,500,000	100.00%	2,465,100,000	100.00%	2,465,100,000	100.00%	2,506,734,762	100.00%	2,506,734,762	100.00%

LETTER FROM THE BOARD

Notes:

1. Keen Platinum is wholly-owned by Mr. Mung, Wai Ming, an executive Director.
2. 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 Limited, 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. Jack Lau, being the spouse of Ms. Loh, is deemed to be interested in all the Shares held by Ms. Loh. Dr. Jack Lau resigned as an executive Director effective from 29 June 2013.
3. Excel Direct Technology Limited is owned as to 50% by Prof. Tsui Chi Ying, who resigned from a non-executive Director effective from 19 July 2013.
4. Rochdale is owned as to 50% by Prof. Cheng Shu Kwan, Roger, who resigned from a non-executive Director effective from 19 July 2013.
5. The University of Hong Kong, a substantial shareholder of the Company, is the beneficial owner of 70,000,000 Shares and is interested in 70,482,433 Shares, through Centennial College, which is wholly-owned by it.

Pursuant to the Underwriting Agreement, the Underwriters have undertaken that in the event that the public float of the Company shall fall below the prescribed percentage applicable to the Company under the Listing Rules at the time of the allotment of the Offer Shares, the Underwriters shall take relevant actions as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with.

The Company will take all reasonable steps to monitor the public float of the Company from time to time.

Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Open Offer are subject to various factors including the results of the acceptance of the Open Offer. Further announcements will be made by the Company in accordance with the Listing Rules and/or the Takeovers Codes following the conclusion of the EGM and the completion of the Open Offer upon which the Offer Shares are allotted and issued.

LETTER FROM THE BOARD

ADJUSTMENTS RELATING TO SHARE OPTIONS, OPTIONS AND WARRANTS UPON COMPLETION OF THE OPEN OFFER

The Open Offer, if it becomes unconditional, will cause adjustments to the subscription price and/or the number of Shares to be issued under the Share Option Scheme, Option Agreement and Warrants and under the respective terms thereof. Adjustments to certain terms of the Share Options shall be made pursuant to the Share Option Schemes and in compliance with Rule 17.03(13) of the Listing Rules and the supplemental guidance issued by the Stock Exchange in September 2005. An auditor will be engaged by the Company to confirm to the Directors in writing that such adjustments satisfy the requirements under Rule 17.03(13) of the Listing Rules. The exercise price of the outstanding Options and Warrants and the corresponding number of Shares that can be subscribed upon exercise will be adjusted pursuant to the terms of the Option Agreement and the Warrants. The Company will inform holders of the Share Options, Options and Warrants of such adjustments accordingly by written notice to each of them.

The allotment and issue of the Shares under the Warrants will be allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 1 June 2012 (the “2012 General Mandate”). The Directors estimated that the 2012 General Mandate will be sufficient to cover the additional Shares to be issued under the Warrants.

Pursuant to the Option Agreement, upon the Open Offer becoming unconditional, there will be additional Shares to be issued under the Options, with the closing price (the “Cum Price”) of the Shares as quoted on the Stock Exchange on the last day of dealing in Shares on a cum-entitlement basis (i.e. 20 December 2013) as one of the adjusting factors. Therefore, it is currently not ascertained the exact additional numbers of Shares to be issued under the Options until 20 December 2013. The allotment and issue of the Shares under the Options will be allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 6 May 2011 (the “2011 General Mandate”). Depending on the Cum Price, there will be a possibility that the 2011 General Mandate may not be sufficient to cover such additional Shares to be issued under the Options. The higher the Cum Price, the more will be the number of additional Shares to be issued under the Options. The Directors has made reference to the historical closing prices of the Shares, according to Bloomberg, over the approximately 3.5-year period prior from 3 May 2010 to the Last Trading Day (the “Review Period”). The highest price of the Shares over the Review Period amounted to HK\$0.581 according to the Bloomberg (the “High Price”). In the event that the Cum Price amounted to the High Price, approximately 10,000,000 additional Shares will be issued under the Options. The Board after considering the High Price and would seek the Shareholders’ approval at the EGM in respect of the grant of the Specific Mandate to allot and issue not more than 10,000,000 new Shares for the additional Shares to be issued under the Options not covered by the 2011 General Mandate. The Directors believe that the Specific Mandate is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Shareholders and public investors should note that in the event that the Specific Mandate is not approved by the Shareholders at the EGM, the Listing Committee of the Stock Exchange may not grant the listing of, and permission to deal in the Offer Shares and accordingly the Open Offer will be lapsed.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES OF THE COMPANY WITHIN 12 MONTHS TO THE LATEST PRACTICABLE DATE

Date of completion announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
2 September 2013	Placing of 186,750,000 new Shares at HK\$0.176 per Share	HK\$31.7 million	50% for general working capital of the Group and 50% for reduction of the Group's indebtedness	30% for general working capital of the Group; 50% for reduction of the Group's indebtedness and the remaining 20% has been placed in bank deposits to be for its intended use
19 March 2013	Open offer on the basis of one offer share for every two shares held on the record date at the subscription price of HK\$0.1286 per offer share	HK\$38.1 million	(a) 30% for future funding requirement on research and development projects for electronic products; (b) 50% for general working capital; and (c) 20% for reduction of the Group's indebtedness	(a) 20% for future funding requirement on research and development projects for electronic products and the remaining 10% has been placed in bank deposits to be for its intended use (b) 50% for general working capital; and (c) 20% for reduction of the Group's indebtedness

Save as aforesaid, the Company did not conduct any fund raising activity in the past 12 months immediately preceding the Latest Practicable Date.

IMPLICATIONS UNDER THE LISTING RULES

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to the Listing Rules, any controlling shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer and the Specific Mandate. As at the Latest Practicable Date, there were no controlling shareholders. As at the Latest Practicable Date, Mr. Mung Wai Ming and Mr. Lee Rabi, being the executive Directors, holding 65,441,500 Shares and 270,000 Shares respectively, will abstain from voting in favour of the resolution(s) relating to the Open Offer and the Specific Mandate at the EGM. Save as aforesaid, there is no other Director or chief executive of the Company holding any Share in the Company as at the Latest Practicable Date.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE

The Company has established an Independent Board Committee (which comprises all the independent non-executive Directors, namely Mr. Ng Wai Hung, Mr. William Keith Jacobsen and Ms. Zhou Jing) to advise the Independent Shareholders as to whether the terms of the Underwriting Agreement, the Open Offer and the absence of excess application arrangement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the independent financial adviser.

INDEPENDENT FINANCIAL ADVISER

Beijing Securities Limited had been appointed by the Company as the Independent Financial Adviser (the appointment of which had been approved by the Independent Board Committee) to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Underwriting Agreement, the Open Offer and the absence of excess application arrangement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote.

EGM

A notice convening the EGM at Meeting Room 04, 1st Floor, Core Building 1, No. 1 Science Park East Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong on Thursday, 19 December 2013 at 9:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrars and transfer office of the Company, Tricor Investor Services Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (being 9:00 a.m. on Tuesday, 17 December 2013). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire. In such event, the instrument appointing a proxy will be deemed to be revoked.

In accordance with the Listing Rules, and the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer and the Specific Mandate at the EGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) believe that the terms of the Underwriting Agreement, the Open Offer and the absence of excess application arrangement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of all resolutions to be proposed at the EGM.

Shareholders are advised to read carefully the letter from the Independent Board Committee on page 30 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 31 to 52 of this circular, considers that the terms of the Underwriting Agreement, the Open Offer and the absence of excess application arrangement are on normal commercial terms and are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Underwriting Agreement and the Open Offer at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

On behalf of the Board
Perception Digital Holdings Limited
Mr. Mung Wai Ming
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Underwriting Agreement and the Open Offer.

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)

3 December 2013

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER OF NOT LESS THAN 1,344,600,000
OFFER SHARES AND NOT MORE THAN 1,367,309,868 OFFER SHARES
AT HK\$0.05 PER OFFER SHARE ON THE BASIS OF
6 OFFER SHARES FOR EVERY 5 EXISTING SHARES
HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 3 December 2013 (“**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Underwriting Agreement, the Open Offer and the absence of excess application arrangement are fair and reasonable insofar as the Independent Shareholders are concerned. Beijing Securities Limited has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice to you and us on pages 31 to 52 of the Circular, we are of the opinion that the Underwriting Agreement, the Open Offer and the absence of excess application arrangement are on normal commercial terms, are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Underwriting Agreement and the Open Offer.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Ng Wai Hung
*Independent non-executive
Director*

Mr. William Keith Jacobsen
*Independent non-executive
Director*

Ms. Zhou Jing
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Beijing Securities
Beijing Securities Limited
北京證券有限公司

BEIJING SECURITIES LIMITED

14th Floor, Shanghai Industrial Investment Building, 48 Hennessy Road, Wanchai, Hong Kong

3 December 2013

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**PROPOSED OPEN OFFER OF NOT LESS THAN 1,344,600,000
OFFER SHARES AND NOT MORE THAN 1,367,309,868 OFFER SHARES
AT HK\$0.05 PER OFFER SHARE ON THE BASIS OF
6 OFFER SHARES FOR EVERY 5 EXISTING SHARES
HELD ON THE RECORD DATE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, details of which are set out in the letter from the Board (“**Letter from the Board**”) contained in the circular of the Company dated 3 December 2013 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 14 November 2013, the Company announced that the Board proposes to raise not less than approximately HK\$67.2 million and not more than approximately HK\$68.4 million before expenses by issuing not less than 1,344,600,000 Offer Shares and not more than 1,367,309,868 Offer Shares at the subscription price of HK\$0.05 per Offer Share on the basis of six (6) Offer Shares for every five (5) Shares held on the Record Date.

The estimated net proceeds from the Open Offer will be approximately HK\$64.0 million (assuming no further issue of new Shares on or before Record Date). The Company intends to apply the net proceeds from the Open Offer as to (i) 50% for general working capital; and (ii) 50% for reduction of the Group’s indebtedness.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Each of the Undertaking Shareholders has severally and irrevocably undertaken to each of the Company and the Underwriters that (i) it/she will accept or procure its/her associates to accept all the Offer Shares to be provisionally allotted to it/her and its/her associates pursuant to the Open Offer in respect of the Shares held by it/her and its/her associates as at the Record Date; and (ii) it/she will not dispose of any Shares held by it/her between the date hereof up to and including the Record Date.

In addition, pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to subscribe or procure subscribers to subscribe for all Underwritten Shares that are not taken up, subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfillment of the conditions contained therein. Also, there is no application for excess Offer Shares, i.e. the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements.

As the Open Offer will increase the issued share capital of the Company by more than 50% within the 12 month period immediately preceding the date of this Circular, the Open Offer is subject to approval by the Independent Shareholders at the EGM by poll in accordance with the requirements of the Listing Rules. As at the Latest Practicable Date, since there is no controlling Shareholder, the Directors (excluding the independent non executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting at the EGM in respect of the resolution to approve the Open Offer pursuant to the Listing Rules.

The Board currently comprises three executive Directors and three independent non-executive Directors. The Independent Board Committee is currently comprising of all the independent non-executive Directors, namely Mr. William Keith Jacobsen, Ms. Zhou Jing and Mr. Ng Wai Hung, has been established to advise the Independent Shareholders regarding the Open Offer. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

Beijing Securities Limited is not connected with the Directors, chief executive or substantial shareholders of the Company or the Underwriters or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Beijing Securities Limited will receive any fees or benefits from the Company or the Directors, chief executive or substantial shareholders of the Company or the Underwriters or any of their respective associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our role is to provide the Independent Board Committee and Independent Shareholders with our independent opinion and recommendation as to whether the terms of the Underwriting Agreement, the Open Offer and the absence of excess application arrangement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole and how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Underwriting Agreement and the Open Offer.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors, the Company and its management.

We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Offer Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Offer Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Open Offer and, if in any doubt, should consult their own professional advisers.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Beijing Securities Limited is to ensure that such information has been correctly and fairly presented and reproduced from the relevant sources.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion on the terms of the Underwriting Agreement, the Open Offer and the absence of excess application arrangement to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Operating performance of the Group

The Group is principally engaged in the provision of embedded firmware and turnkey solutions for consumer electronics devices, with services such as concept consultation, technology feasibility study, embedded firmware design and development, industrial design, intellectual property research, manufacturing and packaging, logistic management and after sales support.

Set out below is a summary of the financial information of the Group for the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013 as extracted from the latest annual report and interim report of the Company.

	Six months ended 30 June 2013 HK\$'000 (Unaudited)	For the year ended 31 December 2012 HK\$'000 (Audited)	2011 HK\$'000 (Audited)
Revenue	94.4	340.9	533.4
Gross profit	13.6	25.5	46.4
Loss for the period/year	<u>(17.3)</u>	<u>(96.6)</u>	<u>(22.0)</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)	2011 HK\$'000 (Audited)
Current assets	152.2	208.2	325.7
Current liabilities	136.3	198.9	267.9
Total bank and other borrowings	82.5	137.0	77.6
Net assets	29.5	8.8	98.6
Current ratio <i>(current assets/current liabilities)</i>	1.1	1.1	1.2
Gearing ratio <i>(total bank and other borrowings divided by the summation of total bank and other borrowings and equity)</i>	73.6%	94.0%	44.0%

(a) For the year ended 31 December 2012

We note that for the year ended 31 December 2012, the revenue of the Group decreased by approximately 36.1% to HK\$340.9 million from HK\$533.4 million for the year ended 31 December 2011 which was mainly attributable to: (i) the decrease in sales of products by approximately 34.6% from HK\$515.3 million for the year ended 31 December 2011 to HK\$337.2 million for the year ended 31 December 2012; and (ii) the decrease in service income from rendering of project development and management services by HK\$11.4 million, or approximately 76.2%, from HK\$15.0 million for the year ended 31 December 2011 to HK\$3.6 million for the year ended 31 December 2012. The decrease was due to the continuing impact from the European debt crisis during the year ended 31 December 2012 and which had caused customers more conservative in researching and developing new products after the prolonged instability of the global economic condition. As a result, for the year ended 31 December 2012, the gross profit of the Group decreased by approximately 45.0% to HK\$25.5 million from HK\$46.4 million for the year ended 31 December 2011.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2012, the net loss of the Group increased significantly to HK\$96.6 million from HK\$22.0 million for the year ended 31 December 2011. The significant increase in net loss was mainly attributable to the decrease in gross profit as mentioned above, the increase in other operating expenses resulted from the write-off of inventories of HK\$10.8 million, the impairment of deferred development costs on certain products amounted to HK\$8.3 million (which cannot be recovered by the future economic benefits generated by those products) and the impairment of certain trade and other receivables amounted to HK\$17.3 million.

As at 31 December 2012, the Group had net assets of approximately HK\$8.8 million, representing a significant decrease of HK\$89.8 million as compared to HK\$98.6 million as at 31 December 2011. Such decrease in net assets was mainly attributed to the loss during the year as mentioned above.

(b) For the six months ended 30 June 2013

For the six months ended 30 June 2013, the revenue of the Group decrease by approximately 44.2% to HK\$94.4 million from HK\$169.0 million for the six months ended 30 June 2012. The decrease was mainly attributable to the decrease in sales of products by HK\$74.5 million, or approximately 44.8%, from HK\$166.4 million for the six months ended 30 June 2012 to HK\$91.9 million for the six months ended 30 June 2013. This decrease in sales of products was mainly caused by the shift of the Group's product mix from products which used to have a relatively higher selling price but lower profit margin to the Group's new golf swing analyser ("3BaysGSA"), which was launched in second half of 2012, which has a relatively lower selling price but higher profit margin. With the launch of the Group's new 3BaysGSA, the gross profit for the six months ended 30 June 2013 increased by 11.2%, or HK\$1.4 million, as compared to HK\$12.2 million for the six months ended 30 June 2012. As a result, the net loss of the Group for the six months ended 30 June 2013 decreased to HK\$17.3 million, as compared to the net loss of HK\$18.3 million for the six months ended 30 June 2012.

As at 30 June 2013, the Group had net assets of approximately HK\$29.5 million, representing an increase of HK\$20.7 million as compared to HK\$8.8 million as at 31 December 2012. The increase was mainly attributable to the net proceeds of approximately HK\$38.1 million the Company received from an open offer with date of completion announcement on 19 March 2013 which offset the net loss of HK\$17.3 million as at 30 June 2013.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 30 June 2013, the Group's current ratio (current assets/current liabilities) was 1.1 times which was similar to the current ratio as at 31 December 2012. In addition, as at 30 June 2013, the Group had total bank and other borrowings amounted to HK\$82.5 million and the Group's gearing ratio (total bank and other borrowings divided by the summation of total bank and other borrowings and equity) was approximately 73.6%. However, such gearing ratio has decreased when compared to the gearing ratio of approximately 94.0% as at 31 December 2012. The decrease was the result of an increased of HK\$20.7 million in net assets as discussed above and a decrease of total bank and other borrowings as at 30 June 2013.

(c) Outlook

As discussed in the interim report of the Company for the six months ended 30 June 2013, the results of the Group had been affected by the global economic downturn caused by the European sovereign debt crisis since 2012. In order to cope with the adverse environment, the Group had already implemented several cost-saving measures since the second half of 2012 including but not limited to (i) streamlining the operation work flows and focus on core product development; (ii) centralizing the Group's employees in Hong Kong from two office premises to one office premise; and (iii) tightening the cost control policies on various expenditures. The Group will continue to closely monitor and review the cost control policies on a regular basis. In addition to the saving of operating costs, the Group will also actively deploy new markets and customers to enhance its profitability. In the second half of 2012, the Group had successfully launched the 3BaysGSA, which provided higher profit margin than other products of the Group and therefore the gross profit of the Group for the six months ended 30 June 2013 increased by approximately 11.2% to HK\$13.6 million. The 3BaysGSA was found to be well accepted by many golfers and received positive reviews in many professional golf magazines and forums. During the first half of 2013, the Group had been focusing to develop sales channels, including golf shops, sports outlets and online websites, in the United States and Asian countries. Starting from June 2013, the 3BaysGSA is also available on the Apple Stores in the United States and Canada. The Group will continue to explore potential new customers and enhance the functionality in a new version of the 3BaysGSA.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Reasons for the Open Offer and use of proceeds

The estimated net proceeds from the Open Offer will be approximately HK\$64.0 million (assuming no further issue of new Shares on or before Record Date). The Company intends to apply the net proceeds from the Open Offer as to (i) 50% for general working capital; and (ii) 50% for reduction of the Group's indebtedness.

As set out in the Letter from the Board, the following are the fund raising activities of the Company during the past 12 months immediately prior to the Latest Practicable Date:

Date of completion announcement	Event	Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
2 September 2013	Placing of 186,750,000 new Shares at HK\$0.176 per Share	HK\$31.7 million	50% for general working capital of the Group and 50% for reduction of the Group's indebtedness	30% for general working capital of the Group and 50% for reduction of the Group's indebtedness and the remaining 20% has been placed in bank deposits to be for its intended use
19 March 2013	Open offer on the basis of one offer share for every two shares held on the record date at the subscription price of HK\$0.1286 per offer share	HK\$38.1 million	(a) 30% for future funding requirement on research and development projects for electronic products; (b) 50% for general working capital; and (c) 20% for reduction of the Group's indebtedness	(a) 20% for future funding requirement on research and development projects for electronic products and the remaining 10% has been placed in bank deposits to be for its intended use (b) 50% for general working capital; and (c) 20% for reduction of the Group's indebtedness

As discussed with the management of the Company, the Company has considered other fund raising alternatives for the Group, such as debt financing, placing and rights issue and is of the view that:

- (i) further debt financing or borrowing would result in additional interest burden and higher gearing ratio of the Group. As set out in the section "Operating performance of the Group" above, the Group had total bank and other borrowings of HK\$82.5 million and a gearing ratio (total bank and other borrowings divided by the summation of total bank and other borrowings and equity) of approximately 73.6% as at 30 June 2013;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) placing would only be available to certain placees who were not necessarily the existing Shareholders and would dilute their shareholding in the Company; and
- (iii) although rights issue was similar to the Open Offer except that it enabled the Shareholders to trade in nil-paid rights, trading arrangement needed to be set up with the share registrar at the expense of the Company and extra administrative work from the Company would be involved.

Taking into account that (i) rights issue has a higher cost and takes a longer time to complete as compared to the Open Offer; (ii) debt financing or borrowing will increase the Group's gearing and interest expenses; (iii) placing of new Shares would not necessarily offer the existing Shareholders the opportunity to participate in the Company's equity raising exercise and would result in dilution of shareholding of the existing Shareholders; (iv) the Open Offer would provide fund for general working capital and reduce the Group's indebtedness; and (v) the Open Offer will enable the Qualifying Shareholders to maintain their respective pro rata shareholding interest in the Group and participate in the future growth of the Group, the Company considers the Open Offer is an appropriate financing means for the Company. Having considered the factors set out above and that the Open Offer will enable the Group to enlarge its capital base and to strengthen its financial position, we concur with the view of the Company that the Open Offer is in the best interests of the Company and the Shareholders as a whole.

3. Principal terms of the Open Offer

Set out below are the principal terms of the Open Offer as extracted from the Letter from the Board. For further details of the terms of the Open Offer, please refer to the Letter from the Board.

Issue statistics

Basis of the Open Offer	:	Six (6) Offer Shares for every five (5) Shares held on the Record Date and payable in full on acceptance
Number of existing Shares in issue as at the Latest Practicable Date	:	1,120,500,000 Shares

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Number of Offer Shares	:	Not less than 1,344,600,000 Offer Shares (assuming no outstanding and vested Share Options and Options are exercised on or before the Record Date) and not more than 1,367,309,868 Offer Shares (assuming all outstanding and vested Share Options and Options are exercised in full on or before the Record Date)
Aggregate nominal value of the Offer Shares (before the completion of the Capital Reduction)	:	Not less than HK\$134,460,000.00 and not more than HK\$136,730,986.80
Aggregate nominal value of the Offer Shares (after the completion of Capital Reduction)	:	Not less than HK\$13,446,000.00 and not more than HK\$13,673,098.68
Subscription price	:	HK\$0.05
Enlarged issued share capital of the Company upon Completion	:	Not less than 2,465,100,000 Shares but not more than 2,506,734,762 Shares
Funds raised before expenses	:	Not less than approximately HK\$67.2 million and not more than approximately HK\$68.4 million
Number of Underwritten Shares underwritten by the Undertaking	:	Not less than 793,451,934 Offer Shares and not more than 816,161,802 Offer Shares

As at the Latest Practicable Date, there were outstanding Share Options conferring rights on the holders thereof to subscribe for up to 2,124,444 new Shares which are vested and exercisable at HK\$0.646 per Share (subject to adjustment, if any) during an exercise period from 26 March 2012 to 25 March 2014.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, there were outstanding Options conferring rights on the holders thereof to subscribe for up to 67,472,775 new Shares, of which 16,800,450 Options are vested and exercisable at HK\$0.351 per Share (subject to adjustment, if any) during an exercise period from 11 November 2011 to 10 August 2016 and 50,672,325 Options are yet to be vested and exercisable and will remain unvested and non-exercisable prior to the Completion pursuant to the terms of the Option Agreement.

As at the Latest Practicable Date, there were outstanding Warrants conferring rights on Capital Fame, a substantial Shareholder, to subscribe in cash in aggregate up to 73,076,087 new Shares at a subscription price of HK\$0.23 (subject to adjustment, if any). Capital Fame has given an irrevocable undertaking in favour of the Company and the Underwriters not to exercise any Warrants to subscribe for new Shares between the date of the Underwriting Agreement up to and including the Record Date; and not to dispose of any Warrants held by it between the date of the Underwriting Agreement up to and including the Record Date.

Assuming no outstanding and vested Share Options and Options are exercised on or before the Record Date, the minimum number of Offer Shares of 1,344,600,000 Shares will be allotted and issued and which represents (i) 120.00% of the existing issued share capital of the Company; and (ii) approximately 54.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after Completion.

Assuming all outstanding and vested Share Options and Options are exercised in full on or before the Record Date, the maximum number of Offer Shares of 1,367,309,868 will be allotted and issued and which represents (i) 122.03% of the existing issued share capital of the Company; and (ii) approximately 54.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after Completion.

As at the Latest Practicable Date, save for the outstanding Share Options, Options and the Warrants as mentioned above, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares and rights over Shares. No Shares shall be allotted or issued between the date of the Underwriting Agreement and up to, and including, the Record Date (other than pursuant to the outstanding and vested of the Share Options and Options).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. The Subscription Price

The subscription price of HK\$0.05 per Offer Share is payable in full upon application. The subscription price per Offer Share represents:

- (i) a discount of approximately 73.7% to the closing price of HK\$0.190 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 74.2% to the average closing price of HK\$0.194 per Share for the last five consecutive trading days quoted on the Stock Exchange up to and including the Last Trading Day;
- (iii) a discount of approximately 75.2% to the average closing price of HK\$0.202 per Share for the last ten consecutive trading days quoted on the Stock Exchange up to and including the Last Trading Day;
- (iv) a premium of approximately 92.3% to the net asset value per Share of approximately HK\$0.026 based on the latest unaudited interim net asset value of the Group as at 30 June 2013 and the Shares in issue as at the Latest Practicable Date; and
- (v) a discount of approximately 64.0% to the closing price of HK\$0.139 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

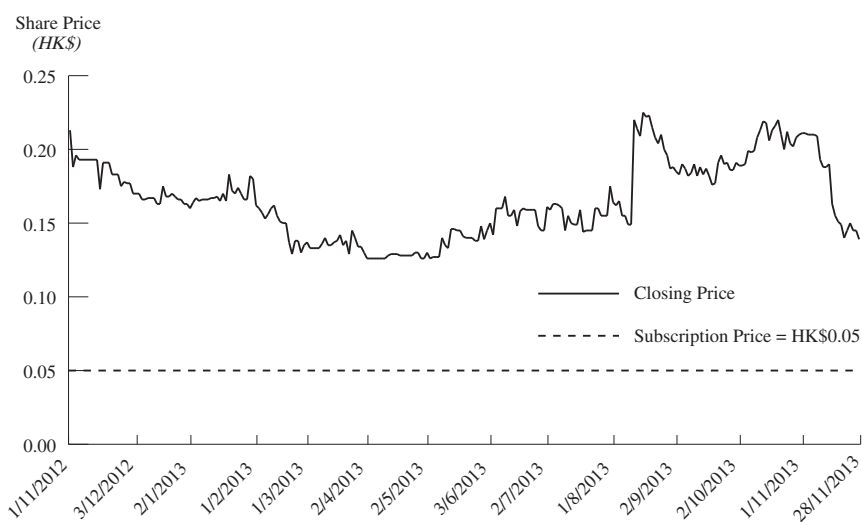
As set out in the Letter from the Board, the subscription price per Offer Share was arrived at after arm's length negotiation between the Company and the Underwriters under prevailing market conditions and with reference to the net asset value of the Company. The Directors consider that the discount would encourage the Qualifying Shareholders to participate in the Open Offer, which would enable the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group. The Directors (excluding the independent non-executive Directors) consider the terms of the Open Offer, including the Subscription Price, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In analysing the fairness and reasonableness of the Subscription Price, we have undertaken the following analysis:

(a) Share price performance and liquidity of the Share

To assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily closing prices of the Shares as extracted from the website of Stock Exchange over an approximately 12 month period prior from 1 November 2012 up to the Latest Practicable Date (the “**Review Period**”). The chart below illustrates the daily closing price of the Shares versus the Subscription Price during the Review Period:



Source: website of Stock Exchange

The Subscription Price is lower than the highest and lowest closing prices of the Shares during the Review Period. The highest and lowest closing price of Shares were HK\$0.225 per Share and HK\$0.126 per Share respectively during the Review Period. We note that the Subscription Price represents a discount of approximately 77.8% and 60.3% to the highest and lowest closing price per Share respectively.

The management of the Company advised that, given that (i) the Group’s business has been facing successive challenges due to the prolonged instability of the global economic condition which resulted in the revenue of the Group to decrease by approximately 44.1% from approximately HK\$169.0 million in the first half of 2012 to approximately HK\$94.4 million in the first half of 2013 and the Group to make net

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

losses of approximately HK\$17.3 million for the six months ended 30 June 2013 and approximately HK\$96.6 million and HK\$22.0 million for the year ended 31 December 2012 and 2011 respectively; (ii) the Group had bank and other borrowings amounting to approximately HK\$82.5 million; and (iii) the Group had an unaudited consolidated net tangible liabilities of approximately HK\$3.0 as at 30 June 2013 as set out in Appendix II to the Circular, the proposed discount of the Subscription Price as stated above will be necessary in order to increase the attractiveness of the Open Offer to the Qualifying Shareholders and to ensure the success of the Open offer and therefore, in our opinion, the proposed discount of the Subscription Price is appropriate.

To further assess the fairness and reasonableness of the Subscription Price, we have reviewed the liquidity of the Share. The following table sets out the trading volume of Shares during the Review Period:

Month	Total monthly trading volume <i>(in number of shares)</i>	Approximate average daily trading volume <i>(the "Average Volume") (in number of shares)</i>	Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date <i>(Approximate %) (Note 1)</i>	Average Volume to total number of issued Shares as at the Latest Practicable Date <i>(Approximate %) (Note 2)</i>
2012				
November	3,005,000	136,591	0.03	0.01
December	2,320,000	122,105	0.02	0.01
2013				
January	8,210,000	373,182	0.07	0.03
February	22,345,000	1,314,412	0.26	0.12
March	18,677,500	933,875	0.19	0.08
April	1,285,000	64,250	0.01	0.01
May	9,270,477	441,451	0.09	0.04
June	13,300,000	700,000	0.14	0.06
July	2,662,500	121,023	0.02	0.01
August	108,707,500	5,176,548	1.03	0.46
September	62,270,000	3,113,500	0.62	0.28
October	21,339,443	1,016,164	0.20	0.09
November <i>(up to and including the Latest Practicable Date)</i>	31,510,000	1,557,500	0.31	0.14

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Source: website of Stock Exchange

Notes:

1. Based on 503,978,495 Shares held by the public Shareholders as at the Latest Practicable Date.
2. Based on 1,120,500,000 Shares in issue as at the Latest Practicable Date.

During the Review Period, the Average Volume to total number of issued Shares as at the Latest Practicable Date was in the range of approximately 0.01% to 0.46% and the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date was in the range of approximately 0.01% to 1.03%. Given that the Average Volume during the Review Period was below 2% of the public float as at the Latest Practicable Date, in our view, the liquidity of Shares during the Review Period was low.

(b) Comparison with other open offers

To further evaluate the fairness and reasonableness of the terms of the Open Offer, we have reviewed all open offer transactions that increased the issued share capital by more than 50% announced by companies listed on the Main Board or GEM of the Stock Exchange during the 24 months immediately before the publication of the Announcement (excluding open offer transactions with bonus issue and companies that had been suspended for trading for more than 12 months from the dates of the respective announcements as terms of the open offer transactions with bonus issue are different to the terms of Open Offer and those companies with long suspension were either undergoing restructuring programme for the resumption of trading or in provisional liquidation and hence they are not direct comparables) and identified 5 open offer transactions (the “**Comparable(s)**”). As only open offer transactions which increased the issued share capital of the companies by more than 50% are included in the Comparables, we are of the view that a 24-month period is necessary in order to compile a more comparable sample size of companies to show a better comparison. The list of Comparables is an exhaustive list and we are of the opinion that the Comparables are fair, sufficient and representative samples to illustrate the recent trend and comparable terms of open offer transactions under common market practice, even though the Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company (stock code)	Date of announcement	Basis of entitlement	Discount of effective subscription price to the closing price on the last trading date (%)	Maximum dilution (%)	Underwriting commission (%)	Excess application (Y/N)
China Environmental Resources Group Limited (1130)	15 Aug 2013	33 for 10	50.00	76.74	2.50	N
Sun Century Group Limited (1383)	5 Sept 2012	6 for 1	78.26	85.71	0.00 <i>(Note)</i>	N
Computech Holdings Limited (8081)	22 Aug 2012	3 for 1	81.82	75.00	2.50	N
Melcot Limited (8198)	14 Aug 2012	3 for 1	21.20	75.00	0.00 <i>(Note)</i>	N
China Automotive Interior Decoration Holdings Limited (8321)	5 July 2012	2 for 1	32.43	66.67	3.00	N
Average			52.74	75.82	1.60	
Maximum			81.82	85.71	3.00	
Minimum			21.20	66.67	0.00	
The Company	14 Nov 2013	6 for 5	73.68	54.55	2.50	N

Source: website of Stock Exchange

Note:

The underwriter(s) is/are connected person(s) with the Comparable and hence no underwriting commission was charged.

As shown by the above table, the subscription prices of the Comparables ranged from discounts of approximately 21.2% to 81.8% to the respective closing prices of their shares on the last trading days prior to the release of the relevant announcements (the “**LTD Market Range**”). The Subscription Price, which represents a discount of approximately 73.7% to the closing price of the Shares on the Last Trading Day prior, falls within the LTD Market Range.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In general, we consider that it is common for the listed issuers in Hong Kong to issue offer shares at a discount to the market price in order to enhance the attractiveness of an open offer transaction. Having considered that (i) the Subscription Price was determined after arm's length negotiations between the Company and the Underwriters; (ii) the discount of the Subscription Price falls within the LTD Market Range; (iii) the low liquidity of Shares during the Review Period; (iv) a premium of approximately 92.3% to the net asset value per Share based on the latest unaudited interim net asset value of the Group as at 30 June 2013 and the Shares in issue as at the Latest Practicable Date; and (v) all Qualifying Shareholders are offered an equal opportunities to subscribe for the Offer Shares, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

5. The Underwriting Agreement

(a) Underwriting commission

The underwriting commission rate of 2.5% on the aggregate subscription price in respect of the number of Underwritten Shares was determined after arm's length negotiation between the Company and the Underwriters. The Directors consider the terms of the Underwriting Agreement including the underwriting commission are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned. Meanwhile, we have reviewed the underwriting commission of the Comparables and noted that the underwriting commission of the Comparables ranges from 2.5% to 3.0%, excluding those that are underwritten by connected person(s). Accordingly, we concur with the Directors and are of the view that the underwriting commission charged by the Underwriters is fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

(b) Termination of the Underwriting Agreement

Subject to the fulfillment of the conditions of the Underwriting Agreement, the Open Offer will not proceed if the Underwriters exercise their termination rights under the Underwriting Agreement, details of the provisions are set out in the section headed "Termination of the Underwriting Agreement" in the Letter from the Board. As it is common to have termination clause in the underwriting agreements, we consider such provisions are normal commercial terms and in line with market practice.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Save as aforesaid, we have also reviewed other major terms of the Underwriting Agreement and we are not aware of any terms which are unusual. Consequently, we concur with the Directors and are of the view that the terms of the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

6. Shareholders Undertakings and Capital Fame Undertaking

As at the date of the Underwriting Agreement, (i) Keen Platinum, a company incorporated in the BVI with limited liability and wholly-owned by Mr. Mung Wai Ming, an executive Director, was interested in 65,441,500 Shares, representing approximately 5.84% of the existing issued share capital of the Company; (ii) Capital Fame was interested in 120,000,000 Shares, representing approximately 10.71% of the existing issued share capital of the Company; and (iii) Swanland, Masteray and Ms. Loh, all being associates of Dr. Jack Lau, a past Director, were collectively interested in 273,848,555 Shares, representing approximately 24.44% of the existing issued share capital of the Company.

Each of the Undertaking Shareholders has severally and irrevocably undertaken to each of the Company and the Underwriters that (i) it/she will accept or procure its/her associates to accept all the Offer Shares to be provisionally allotted to it/her and its/her associates pursuant to the Open Offer in respect of the Shares held by it/her and its/her associates as at the Record Date; and (ii) it/she will not dispose of any Shares held by it/her between the date hereof up to and including the Record Date.

As at the date of the Underwriting Agreement, Capital Fame held the Warrants which entitle it to subscribe in cash in aggregate up to HK\$16,807,500 for 73,076,087 new Shares at a subscription price of HK\$0.23 (subject to adjustment, if any). Capital Fame has irrevocably undertaken to the Company and the Underwriters that (i) it will not exercise any Warrants to subscribe for new Shares between the date of the Underwriting Agreement up to and including the Record Date; and (ii) it will not dispose of any Warrants held by it between the date of the Underwriting Agreement up to and including the Record Date.

In view that the Shareholders Undertakings and the Capital Fame Undertaking are undertakings by the Undertaking Shareholders and Capital Fame to confirm each of its acceptance on its entitlement under the Open Offer and to not exercise or dispose of any Warrants between the date of the Underwriting Agreement up to and including the Record Date respectively, we consider the Shareholders Undertakings and the Capital Fame Undertaking are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7. No application for excess Offer Shares

As set out in the letter from the Board, Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements. Considering that each Qualifying Shareholder will be given an equal opportunity to participate in the Company's future development by subscribing for his/her/its entitlements under the Open Offer, the Board considers that the Company will not be justified in making additional effort and incurring additional costs to administer the excess application procedures. All Offer Shares not taken up under the Open Offer are underwritten by the Underwriters.

We consider that the absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements and would result in the Underwriters taking up all the untaken Offer Shares at discount to the prevailing market price of the Shares.

However, we consider that the aforesaid should be balanced against after taking into account the following factors:

- (a) we noted that all the Comparables did not adopt any excess application when they conducted their respective open offer for fund raising and we believed that the absence of the excess application arrangement is not an uncommon market practice;
- (b) the related administration costs would be lowered in the absence of excess applications; and
- (c) the absence of excess application arrangement for the Offer Shares is subject to approval by the Independent Shareholders at the EGM.

Given the above, we are of the view that the absence of the excess application arrangement is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

8. Risks associated with the Open Offer

Shareholders should note that the Open Offer is conditional, among other things, upon the fulfillment of the conditions set out under the section headed “Conditions of the Open Offer” in the Letter from the Board. In particular, the Open Offer is subject to the Underwriters not terminating or rescinding the Underwriting Agreement in accordance with the terms set out therein (a summary of which is set out in the section headed “Termination of the Underwriting Agreement” in the Letter from the Board). Accordingly, the Open Offer may or may not proceed. The Shareholders should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

9. Financial effects of the Open Offer on the Group

(a) Net tangible assets

Based on the statement of unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, the unaudited consolidated net tangible liabilities attributable to owners of the Company amounts to approximately HK\$3.0 million as at 30 June 2013. After taking into account of the Open Offer with an estimated net proceeds of approximately HK\$64.0 million (assuming no further issue of new Shares on or before Record Date), the unaudited pro forma consolidated net tangible assets attributable to owners of the Company immediately after completion of the Open Offer will be increased to approximately HK\$61.0 million.

(b) Net asset value per Share

As the net assets as at 30 June 2013 was approximately HK\$29.5 million and the number of existing Shares in issue as at the Latest Practicable Date is 1,120,500,000, the net asset value per Share is approximately HK\$0.026. Assuming no further issue of new Shares on or before Record Date, the estimated net proceeds from the Open Offer will be approximately HK\$64.0 million and 1,344,600,000 Offer Shares will be issued. As a result, upon completion of the Open Offer, the net assets of the Company will be approximately HK\$93.5 and the number of shares in issue will be 2,465,100,000 which represents a net asset value per Share of approximately HK\$0.038. As such, upon completion of the Open Offer, the net asset value per Share will be improved and therefore we are of the view that the Open Offer will benefit the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) Working capital

The Open Offer is expected to have a positive effect on the Group's working capital upon completion as the proceeds from the Open Offer will bring in net proceeds approximately HK\$64.0 million (assuming no further issue of new Shares on or before Record Date) to the Group.

(d) Gearing (total bank and other borrowings divided by the summation of total bank and other borrowings and equity)

The gearing ratio of the Group was approximately 73.6% as at 30 June 2013. Immediately after completion of the Open Offer, the total bank and other borrowings of the Group would remain unchanged while the net assets/equity would increase by approximately HK\$64.0 million (assuming no further issue of new Shares on or before Record Date). Hence, the gearing ratio of the Group would be improved as a result of the Open Offer.

In light of the enhancement on the net tangible assets, net asset value per Share and the working capital and the reduction of gearing of the Group as a result of the Open Offer, we are of the opinion that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole.

10. Effect of the Open Offer on the shareholding of the Company

As the Open Offer is offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Open Offer in full.

As noted from the Letter of the Board, under the scenario assuming no acceptance by the Qualifying Shareholders other than the Undertaking Shareholders and no outstanding and vested Share Options and Options are exercised on or before the Record Date, the aggregate shareholding of public Shareholders (excluding the Underwriters) will decrease from approximately 45.0% to 20.5%. Under the scenario assuming no acceptance by the Qualifying Shareholders other than the Undertaking Shareholders and all outstanding and vested Share Options and Options are exercised on or before the Record Date, the aggregate shareholding of public Shareholders (excluding the Underwriters) will decrease from approximately 45.0% to 20.9%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In all cases of open offers, the dilution on the shareholding of those qualifying shareholders who do not take up in full their assured entitlements under the open offers is inevitable. In fact, the dilution magnitude of any open offers depends mainly on the extent of the basis of entitlement under such exercises since the higher offering ratio of new shares to existing shares is the greater the dilution on the shareholding would be.

We noted the dilution effect and the high discount of the Subscription Price to the closing price on the Last Trading Day. However, having taken into account:

- (a) the Open Offer would enlarge the capital base of the Company and improve the Group's financial position;
- (b) the Open Offer is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company and allows the Qualifying Shareholders to participate in the future growth of the Company;
- (c) the inherent dilutive nature of Open Offer in general;
- (d) the discount represented by the Subscription Price to the closing price of the Share on the Last Trading Day falls within the LTD Market Range; and
- (e) the maximum dilution of the Open Offer is below the range of the maximum dilution of the open offer of the Comparables which ranges from approximately 66.7% to 85.7%.

We consider the potential dilution effect on the shareholding which may happen to the Qualifying Shareholders who decide not to accept the Open Offer is acceptable.

RECOMMENDATIONS

Having considered the above principal factors, we are of the opinion that the terms of the Underwriting Agreement, the Open Offer and the absence of excess application arrangement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Underwriting Agreement and the Open Offer.

Yours faithfully,
For and on behalf of
Beijing Securities Limited
Charles Li
Director

1. SUMMARY OF FINANCIAL RESULTS

Financial information of the Group for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 and the six months ended 30 June 2013, including the notes thereto, have been published in the annual reports of the Company for the years ended 31 December 2010 (pages 41 to 114), 31 December 2011 (pages 40 to 111) and 31 December 2012 (pages 36 to 110) and the interim report of the Company for the six months ended 30 June 2013 (pages 1 to 14) respectively, which are incorporated by reference into this circular. The said annual reports and interim report of the Company are available on the Company's website at www.perceptiondigital.com and the website of the Stock Exchange at www.hkexnews.hk.

2. INDEBTEDNESS STATEMENT

At the close of business on 31 October 2013, the Group had (i) total outstanding borrowings of approximately HK\$87.7 million, comprising secured bank loans of approximately HK\$47.4 million, unsecured bank loans of approximately HK\$3.3 million, an unsecured and unguaranteed loan from a related company of approximately HK\$12.2 million and an unsecured and unguaranteed loan from a shareholder of the Company of approximately HK\$24.8 million; and (ii) outstanding secured letters of guarantee issued by a bank of approximately HK\$6.7 million. All the outstanding bank loans are guaranteed by the Company and/or a subsidiary of the Company.

The secured bank loans and the secured letters of guarantee issued by a bank are secured by the pledge of certain of the Group's bank deposits amounting to approximately HK\$19.8 million as at 31 October 2013.

Disclaimer

Save as disclosed in this circular and apart from intra-group liabilities and trade payables, the Group did not have any loan capital issued and outstanding or agreed to be issued, or any outstanding debt securities, bank overdrafts, other borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 31 October 2013.

The Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since 31 October 2013.

3. WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources available to the Group, including (i) internal resources of the Group; (ii) available credit facilities of the Group and (iii) the estimated net proceeds from the Open Offer, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present working capital requirements, that is, for at least the next twelve months following the date of this circular.

As at the Latest Practicable Date, the Group has settled all its outstanding bank loans.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. BUSINESS PROSPECTS**Trading and financial prospects of the Group**

As at the Latest Practicable Date, the Group is principally engaged in the provision of embedded firmware and turnkey solutions for consumer electronics devices, with services such as concept consultation, technology feasibility study, embedded firmware design and development, industrial design, intellectual property research, manufacturing and packaging, logistic management and after sales support.

As disclosed in the interim report of the Company for the six months ended 30 June 2013, during the six months ended 30 June 2013, revenue of the Group decreased by approximately 44.1% to HK\$94.4 million from HK\$169.0 million as recorded in the corresponding period in the last fiscal year. The decrease was mainly attributable to the decrease in sales of products by HK\$74.5 million, or approximately 44.8%, from HK\$166.4 million in the six months ended 30 June 2012 to HK\$91.9 million in the six months ended 30 June 2013. This was mainly caused by the shift of our product mix from products with relatively higher selling price but lower profit margin to our new golf swing analyser (“3BaysGSA”), which was launched in second half of 2012, with relatively lower selling price but higher profit margin. With the launch of our new 3BaysGSA, the overall gross profit for the six month ended 30 June 2013 increased by 11.2%, or HK\$1.4 million, as compared to the corresponding period in 2012.

In view of the above, the net loss of the Group for the six months ended 30 June 2013 decreased to HK\$17.3 million, as compared to the net loss of HK\$18.3 million recorded in the corresponding period in 2012.

In terms of revenue breakdown, our revenue from sales of goods, royalty fees and income from rendering of services contributed approximately 97.3% (2012: 98.4%), 0.4% (2012: 0.1%) and 2.3% (2012: 1.5%), respectively. During the six months ended 30 June 2013, upon the requests of customers for coping with their marketing strategies, products delivered to Hong Kong decreased by approximately HK\$26.7 million to HK\$8.8 million.

The results the Group have been affected by the global economic downturn caused by the European sovereign debt crisis since 2012. In order to cope with the adverse environment, the Group had already implemented several cost-saving measures since the second half of 2012, including but not limited to (i) streamline the operation flows and focus on core product development; (ii) centralised our employees in Hong Kong from two office premises to one office premise; and (iii) tightening the cost control policies on various expenditures. The Group will continue to closely monitor and review the cost control policies on a regular basis.

In addition to the saving of operating costs, the Group also actively deploys new markets and customers to enhance its profitability. With the success of marketing and promoting the Group's 3BaysGSA, which was launched in the second half of 2012 and had higher profit margin than other products of the Group. The 3BaysGSA was found to be well accepted by many golfers and received positive reviews in many professional golf magazines and forums. The Group has been focusing to develop sales channels, including golf shops, sports outlets and online websites, in the United States and Asian countries. Starting from June 2013, the 3BaysGSA is also available on the Apple Stores in the United States and Canada. The Group will continue to explore potential new customers and enhance the functionality in new version of the 3BaysGSA.

6. EVENTS AFTER 30 JUNE 2013 BEING THE DATE ON WHICH THE LATEST PUBLISHED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP WERE MADE UP

As disclosed in the announcements of the Company dated 22 August 2013 and 23 August 2013, the Company entered into the placing agreement and deed of variation with China Galaxy to place up to 186,750,000 Shares (“Placing Shares”) at HK\$0.176 per Share on a best effort basis (the “Placing”). The Placing Shares were to be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 31 May 2013. As disclosed in the announcement of the Company dated 2 September 2013, all the conditions of the Placing have been fulfilled and completion of the Placing took place on 2 September 2013 and an aggregate of 186,750,000 Placing Shares have been successfully placed at the placing price of HK\$0.176 per Placing Share to not fewer than six independent placees, who and whose ultimate beneficial owners are independent of and not connected with the Company and its connected persons (as defined in the Listing Rules). The Placing Shares represent (i) 20% of the issued share capital of the Company as at the date of placing agreement; and (ii) approximately 16.67% of the issued share capital of the Company immediately upon completion of the Placing. The Company received net proceeds of approximately HK\$31.7 million from the Placing.

For illustrative purpose only, set out below is the unaudited pro forma adjusted consolidated net tangible assets of the Group (the “Unaudited Pro Forma Financial Information”) as if Open Offer had been completed on 30 June 2013. Although reasonable care has been exercised in preparing the Unaudited Pro Forma Financial Information, Shareholders who read the information below should bear in mind that these figures are inherently subject to adjustments and, because of its hypothetical nature, may not give a true picture of the Group’s financial position had the open offer been completed as at 30 June 2013 or any future dates.

**UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF
THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company set out below has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules to illustrate the effect of the proposed Open Offer on the unaudited consolidated net tangible liabilities of the Group as if the Open Offer had been completed on 30 June 2013.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Open Offer.

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared based on the unaudited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2013, with adjustment described below.

	Unaudited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2013 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Open Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Open Offer <i>HK\$'000</i>	Unaudited consolidated net tangible liabilities per Share attributable to owners of the Company as at 30 June 2013 <i>HK\$</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company immediately after completion of the Open Offer <i>HK\$</i> <i>(Note 4)</i>
Based on 1,344,600,000 Offer Shares at a Subscription Price of HK\$0.05 per Offer Share ("Scenario I")	(2,963)	64,000	61,037	(0.003)	0.027
Based on 1,367,309,868 Offer Shares at a Subscription Price of HK\$0.05 per Offer Share ("Scenario II")	<u>(2,963)</u>	<u>65,135</u>	<u>62,172</u>	<u>(0.003)</u>	<u>0.027</u>

Notes:

- The unaudited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2013 is calculated based on the unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 June 2013 of approximately HK\$29,546,000, adjusted by deducting the deferred development costs of the Group as at 30 June 2013 of approximately HK\$32,509,000, both are extracted from the published interim report of the Company for the six months ended 30 June 2013.
- The estimated net proceeds from the Open Offer of approximately HK\$64,000,000 in Scenario I is calculated based on 1,344,600,000 Offer Shares assuming to be issued on the completion of the Open Offer (assuming no outstanding and vested Options and Share Options would be exercised on or before the Record Date) at the Subscription Price of HK\$0.05 per Offer Share and after deduction of estimated related expenses of approximately HK\$3,230,000.

The estimated net proceeds from the Open Offer of approximately HK\$65,135,000 in Scenario II is calculated based on 1,367,309,868 Offer Shares assuming to be issued on the completion of the Open Offer (assuming all outstanding and vested Options and Share Options would be exercised on or before the Record Date) at the Subscription Price of HK\$0.05 per Offer Share and after deduction of estimated related expenses of approximately HK\$3,230,000.

3 The number of Shares used for the calculation of the unaudited consolidated net tangible liabilities per Share attributable to owners of the Company as at 30 June 2013 is 933,750,000, being the number of Shares in issue as at 30 June 2013.

4 The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company immediately after completion of the Open Offer in Scenario I is calculated based on 2,278,350,000 Shares which comprise 933,750,000 Shares in issue as at 30 June 2013 and 1,344,600,000 Offer Shares assuming to be issued on the completion of the Open Offer (assuming no outstanding and vested Options and Share Options would be exercised on or before the Record Date) as if the Open Offer had been completed on 30 June 2013.

The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company immediately after completion of the Open Offer in Scenario II is calculated based on 2,319,984,762 Shares which comprise 933,750,000 Shares in issue as at 30 June 2013, 2,124,444 Shares to be issued upon the exercise in full of the outstanding Share Options, 16,800,450 Shares to be issued upon the exercise in full of the outstanding and vested Options and 1,367,309,868 Offer Shares assuming to be issued on the completion of the Open Offer (assuming all outstanding and vested Options and Share Options would be exercised on or before the Record Date) as if the Open Offer had been completed on 30 June 2013.

5 On 2 September 2013, the Company completed the Placing and the net proceeds from the Placing amounted to approximately HK\$31,700,000. For details of the Placing, please refer to the Company's announcements dated 22 August 2013, 23 August 2013 and 2 September 2013.

Assuming the Placing and the Open Offer had been completed on 30 June 2013, the unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company immediately after completion of the Placing and the Open Offer in Scenario I is HK3.8 cents, calculated based on 2,465,100,000 Shares which comprise 933,750,000 Shares in issue as at 30 June 2013, 186,750,000 Shares issued on the completion of the Placing and 1,344,600,000 Offer Shares assuming to be issued on the completion of the Open Offer (assuming no outstanding and vested Options and Share Options would be exercised on or before the Record Date).

Assuming the Placing and the Open Offer had been completed on 30 June 2013, the unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company immediately after completion of the Placing and the Open Offer in Scenario II is HK3.7 cents, calculated based on 2,506,734,762 Shares which comprise 933,750,000 Shares in issue as at 30 June 2013, 186,750,000 Shares issued on the completion of the Placing, 2,124,444 Shares to be issued upon the exercise in full of the outstanding Share Options, 16,800,450 Shares to be issued upon the exercise in full of the outstanding and vested Options and 1,367,309,868 Offer Shares assuming to be issued on the completion of the Open Offer (assuming all outstanding and vested Options and Share Options would be exercised on or before the Record Date).

6 Except for the Placing and the Open Offer, no adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2013.

**REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
GROUP**

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group for the purpose of incorporation in this circular.



22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

To the Directors of Perception Digital Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Perception Digital Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2013, and related notes as set out on pages 57 to 59 of the circular (the "Circular") issued by the Company dated 3 December 2013 (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described on pages 57 to 59 of the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed open offer of shares of the Company on the Group's financial position as at 30 June 2013 as if the transaction had taken place at 30 June 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated interim financial statements for the period ended 30 June 2013, on which an interim report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the proposed open offer of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Ernst & Young
Certified Public Accountants
Hong Kong

3 December 2013

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately upon completion of the Open Offer (assuming no further issue of Shares from the Latest Practicable Date up to completion of the Open Offer) was and will be as follows:

As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
<u>2,000,000,000</u>	Shares	<u>200,000,000.00</u>

<i>Issued and fully paid:</i>		<i>HK\$</i>
<u>1,120,500,000</u>	Shares in issue as at the Latest Practicable Date	<u>112,050,000.00</u>

Immediately after completion of the Capital Reduction and Open Offer

<i>Authorised:</i>		<i>HK\$</i>
<u>20,000,000,000</u>	Shares	<u>200,000,000.00</u>

Issued and fully paid:

**Scenario 1: Assuming no outstanding and vested Share Options and
Options are exercised on or before Record Date**

		<i>HK\$</i>
<u>1,344,600,000</u>	Offer Shares to be issued pursuant to the Open Offer	<u>13,446,000.00</u>
<u>2,465,100,000</u>	Shares in issue immediately following the Open Offer	<u>24,651,000.00</u>

**Scenario 2: Assuming all outstanding and vested Share Options and
Options are exercised on or before the Record Date**

		<i>HK\$</i>
1,367,309,868	Offer Shares to be issued pursuant to the Open Offer	136,730,986.80
2,506,734,762	Shares in issue immediately following the Open Offer	25,067,347.62
<u> </u>		<u> </u>

All of the Offer Shares to be issued will rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital, and with all the Shares in issue as at the date of allotment and issue of the Offer Shares. The Offer Shares to be issued will be listed on the Stock Exchange.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Offer Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there were (i) outstanding Share Options conferring rights on the holders thereof to subscribe for 2,124,444 new Shares which are vested and exercisable at HK\$0.646 per Share (subject to adjustment, if any) during an exercise period from 26 March 2012 to 25 March 2014; (ii) outstanding Options conferring rights on the holders thereof to subscribe for up to 67,472,775 new Shares, of which 16,800,450 Options are vested and exercisable at HK\$0.351 per Share (subject to adjustment, if any) during an exercise period from 11 November 2011 to 10 August 2016 and 50,672,325 Options are yet to be vested and exercisable pursuant to the terms of the Option Agreement; and (iii) outstanding Warrants conferring rights on the holders thereof to subscribe in cash in aggregate up to HK\$16,807,500 for 73,076,087 new Shares at a subscription price of HK\$0.23 (subject to adjustment, if any). Save for the outstanding Share Options, Options and Warrants as mentioned above, as at the Latest Practicable Date, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares and rights over Shares.

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests of the Directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules, were as follows:

Long position:

Name of Director	Note	Capacity/Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Mr. Mung, Wai Ming	(a)	Interest of controlled corporation	65,441,500	5.84%
Mr. Lee Rabi		Beneficial owner	270,000	0.02%

Note:

- (a) Keen Platinum is interested in 65,441,500 Shares. Keen Platinum is wholly-owned by Mr. Mung, Wai Ming, an executive Director, and hence he is deemed to be interested in all the Shares that Keen Platinum is interested in.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any beneficial or deemed interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules.

4. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under provisions of Division 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in ten per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long Position:

Name of Substantial Shareholders	Notes	Capacity/Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Swanland		Beneficial owner	188,388,510	16.81%
Masteray	(a)	Beneficial owner	80,743,045	7.21%
		Interest of controlled corporation	188,388,510	16.81%
			269,131,555	24.02%
Sea Progress Limited ("Sea Progress")	(a)	Beneficial owner	269,131,555	24.02%
Ms. Loh	(a)	Interest of controlled corporation	269,131,555	24.02%
		Beneficial owner	4,717,000	0.42%
			273,848,555	24.44%
The University of Hong Kong		Beneficial owner	140,482,433	12.54%

Name of Substantial Shareholders	Notes	Capacity/Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
The University of Hong Kong	(b)	Interest of controlled corporation	70,482,433	6.29%
		Beneficial owner	70,000,000	6.25%
			140,482,433	12.54%
Capital Fame		Beneficial owner	120,000,000	10.71%
Mr. Chan Yuen Ming ("Mr. Chan")	(c)	Interest of controlled corporation	120,000,000	10.71%
Keen Platinum		Beneficial owner	65,441,500	5.84%
Mr. Mung, Wai Ming	(d)	Interest of controlled corporation	65,441,500	5.84%

Notes:

- (a) 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 immediately after the Completion. Dr. Jack Lau, being the spouse of Ms. Loh, is deemed to be interested in all the Shares held by Ms. Loh. Dr. Jack Lau resigned as an Executive Director effective from 29 June 2013.
- (b) The University of Hong Kong, a substantial shareholder of the Company, is the beneficial owner of 70,000,000 Shares and is interested in 70,482,433 Shares, through Centennial College, which is wholly-owned by it.
- (c) 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.
- (d) Keen Platinum is interested in 65,441,500 Shares. Keen Platinum is wholly-owned by Mr. Mung, Wai Ming, an executive Director, and hence he is deemed to be interested in all the Shares that Keen Platinum is interested in.

Save as disclosed above, as at the Latest Practicable Date, none of the Director is a director or employee of the companies who are the substantial shareholders of the Company.

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2012 (being the date up to which the latest published audited accounts of the Group were made up), (i) acquired or disposed of by; or (ii) lease to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

6. DIRECTORS' SERVICE CONTRACTS

The service contracts between the Company and each of the Directors are for a term of three years, subject to renewal by agreement for one or more consecutive terms of three years. Their terms of office are also 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 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.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and his respective associates was interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's businesses pursuant to Rule 8.10 of the Listing Rules.

8. LITIGATION

Set out below are the various lawsuits in relation to the subsidiaries of the Company as disclosed in the announcement of the Company dated 22 February 2013 and 20 November 2013:

- (i) On 22 October 2012, PD Trading (Hong Kong) Limited, a wholly owned subsidiary of the Company, issued a writ of summons in the court of first instance of the high court of Hong Kong (the “Court”) against Teleepoch, a company whose business address is in Shenzhen, the PRC, claiming the sum of HK\$9,206,800.98 being the aggregate amount of 11 dishonoured cheques issued by Teleepoch and interest thereon. As Teleepoch is a foreign company, the plaintiff has applied to and obtained permission from the Court to serve the writ of summons on Teleepoch outside of the jurisdiction of Hong Kong. On 21 October 2013, the Court adjudged that Teleepoch should pay PD Trading (Hong Kong) Limited the sum of HK\$9,206,800.98.
- (ii) On 22 October 2012, PDL, a wholly owned subsidiary of the Company, issued a writ of summons in the Court against Wang Chuan, a PRC resident, claiming the sum of US\$360,000 being outstanding loan principal due with interest accrued and owing by Wang Chuan to PDL under a loan agreement dated 1 March 2012 entered into between PDL and Wang Chuan. As Wang Chuan is a PRC resident, the plaintiff has applied to and obtained permission from the Court to serve the writ of summons on the Wang Chuan outside of the jurisdiction of Hong Kong. On 19 August 2013, the Court adjudged that Wang Chuan should pay PDL the sum of US\$360,000 or the equivalent Hong Kong dollars.
- (iii) On 26 November 2012, PDL, a wholly owned subsidiary of the Company, issued a writ of summons in the Court against Monsoon Multimedia Inc. (“Monsoon”) as the first defendant claiming (i) the sum of US\$4,126,399 being the aggregate amounts due and owing by Monsoon to PDL under, inter alia, (aa) a running account between PDL and Monsoon resulted in various trading activities as to US\$81,457; (bb) a debt conversion agreement dated 1 June 2011 entered into between PDL and Monsoon, whereby Monsoon inter alia granted an option to PDL to convert debts owned by Monsoon to PDL into the common shares in Winfort Global Limited (“Winfort”), the parent company of Monsoon. Up to the date of writ of summons, PDL never exercised the option granted and Monsoon remained so indebted to PDL as to US\$1,014,209.32; (cc) a distribution agreement entered into between PDL and Monsoon dated 7 December 2010 whereby PDL agreed inter alia to develop and distribute for Monsoon an electronic device and related client software marketed under the name of “Vulkano” under which Monsoon owed PDL for an amount of US\$537,689.69; (dd) a (loan) agreement entered into and signed by PDL, Monsoon and Wilfort, under which several loan advancement were made by PDL to Monsoon, resulting in a net sum of

US\$1,287,528 which was overdue and payable by Monsoon to PDL; (ee) a master service agreement entered into by Monsoon and PDL on 13 October 2010, PDL inter alia provided some services to Monsoon and a total sum of US\$500,000 was overdue and payable by Monsoon to PDL; among the aforesaid transaction, PDL also claims from Monsoon an additional US\$705,515 being interest on the outstanding balances; and (ii) a declaration that PDL be entitled to the immediate release of the source code, the patents and other intellectual property from an escrow agent to PDL under a tri-party escrow service agreement dated 22 December 2011 entered into among PDL, Monsoon and Iron Mountain Intellectual Property Management Inc. pursuant to clause 7(c)(dd) under the loan agreement which states that if the debts owed by Monsoon to PDL are over US\$500,000, or if Monsoon fails to pay back the debts owed by Monsoon to PDL by 30 May 2012, then the source code, patents and other intellectual property put under the tri-party escrow service agreement shall be released to PDL unconditionally and free of charge, and that PDL shall own, and/or have the right to use, the source code, the said patents and other intellectual property freely or sell them to a bona fide buyer; and against Prabhat Jain as the second defendant, claiming the sum of US\$4,126,399 under a personal guarantee dated 7 December 2011 executed by Prabhat Jain in favour of PDL guaranteeing the full and punctual payment when due, any amount of debts owed by Monsoon to PDL. As the proceedings are still in the progress, the Company is not in a position to estimate when the court hearing will commence.

- (iv) On 20 November 2013, a writ of summons in the High Court (the “Legal Action”) was served on two wholly-owned subsidiaries of the Company, namely, Perception Digital Limited and PD Trading (Hong Kong) Limited (collectively, the “Defendant Companies”). The Legal Action relates to a dispute between the Defendant Companies and a supplier of the Group (the “Claimant”), who now seeks to claim from the Defendant Companies, inter alia, an alleged sum of US\$3,723,670.23 (equivalent to HK\$29,044,628 based on an exchange rate of US\$1.00 = HK\$7.80) (the “Relevant Sum”). The Claimant alleged that the Relevant Sum relates to outstanding but unpaid invoices for certain goods supplied by the Claimant to the Defendant Companies. Upon obtaining the legal advice from our Hong Kong legal advisors, the Group intends to contest the Claimant’s allegations in the Legal Action. At this early stage of the Legal Action, the Company considers that it is impracticable to estimate the potential impact of the Legal Action on the Group.

As at the Latest Practicable Date, save as disclosed above, neither the Company nor any of its subsidiaries was engaged in any material litigation or claims and, so far as the Directors were aware, no material litigation or claims were pending or threatened by or against any companies of the Group.

9. EXPERTS AND CONSENTS

The following are the qualifications of the expert who has given opinion and advice, contained in this circular:

Name	Qualifications
Ernst & Young	Certified Public Accountants
Beijing Securities Limited	A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Ernst & Young and Beijing Securities Limited have given and have not withdrawn their written consent to the issue of this circular with the inclusion therein of their report and references to its name in the form and context in which they appear in this circular.

As at the Latest Practicable Date, Ernst & Young and Beijing Securities Limited (i) were not interested, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up; and (ii) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$3.2 million, which are payable by the Company.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date:

- (i) the Underwriting Agreement;
- (ii) the placing agreement dated 22 August 2013 and the deed of variation dated 23 August 2013 entered into between the Company and China Galaxy (as the placing agent) in relation to the placing of 186,750,000 new Shares at the placing price of HK\$0.176 per Share;
- (iii) the underwriting agreement dated 30 January 2013, entered into by the Company, Capital Fame and Keen Platinum (as the underwriters) and Swanland, Masteray and Ms. Loh (as the undertaking shareholders) in relation to the open offer on the basis of 1 offer share for every 2 shares held at the subscription price of HK\$0.1286 per offer share;
- (iv) a loan agreement dated 18 October 2012 and entered into between the Company and Capital Fame in relation to a loan facility of HK\$50,000,000 granted by Capital Fame to the Company for a term of five years at an interest rate of 6% per annum; and
- (v) a warrant subscription agreement dated 18 October 2012 and entered into between the Company and Capital Fame in relation with the issue by the Company and the subscription by Capital Fame of warrants at the aggregate consideration of HK\$1.00 which carry the rights to subscribe for warrant shares at the exercise price up to HK\$16,807,500 within a period of 5 years.

12. CORPORATE INFORMATION OF THE COMPANY AND PARTIES INVOLVED IN THE OPEN OFFER

Board of Directors	Executive Director	Address:
	Mr. Mung Wai Ming	5/F, Foo Sang Building, 67 Wing Lok Street, Hong Kong
	Ms. Liu Yee Nee	Room 2107, Sun Hing Building, 607 Nathan Road, Mong Kok, Kowloon, Hong Kong
	Mr. Lee Rabi	Flat B, 5/F, Block 21, Baguio Villa, 555 Victoria Road, Hong Kong
	Independent non-executive Directors	
	Mr. William Keith Jacobsen	Flat 23B, Tower 10, Larvotto, 8 Ap Lei Chau Praya Road, Hong Kong
	Ms. Zhou Jing	No. 1301, 13/F, Hong Yuan Building, No. 64 Dongfengxi Road, Kunming, Yunuan, China
	Mr. Ng Wai Hung	Flat B, 32/F, King Yu Court, No. 43 and 45 Tin Hau Temple Road, Hong Kong
		Address:
Authorised representatives	Mr. Mung Wai Ming	5/F, Foo Sang Building, 67 Wing Lok Street, Hong Kong
	Mr. Rabi Lee	Flat B, 5/F, Block 21, Baguio Villa, 555 Victoria Road, 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 in the Cayman Islands	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road, George Town Grand Cayman KY1-1110 Cayman Islands
Branch share registrar and transfer office in Hong Kong	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Auditors	Ernst & Young Certified Public Accountants 22nd Floor, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
Principal bankers	Hang Seng Bank Limited 83 Des Voeux Road, Central, Hong Kong Shanghai Commercial Bank Limited 405 Castle Peak Road, Tsuen Wan New Territories, Hong Kong
Website	www.perceptiondigital.com
Legal advisers to the Company in relation to the Open Offer	As to Hong Kong law: Robertsons 57/F., The Center 99 Queen's Road Central Hong Kong

13. BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT**Executive Director**

Mr. Mung Wai Ming, aged 49, 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 as Talent 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).

14. MISCELLANEOUS

- (i) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the head office and principal place of business of the Company is situated 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.
- (ii) The principal share registrar and transfer office of the Company in the Cayman Islands is Royal Bank of Canada Trust Company (Cayman) Limited at 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands.
- (iii) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, having its office situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) Mr. Rabi Lee, the company secretary of the Company, is a member of the Hong Kong Institute of Certified Public Accountants.
- (v) As at the Latest Practicable, there was no restriction affecting the remittance of profits or repatriation of capital of the Company into Hong Kong from outside of Hong Kong,
- (vi) The English text of the Prospectors Documents shall prevail over their respective Chinese texts in the case of inconsistency.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company 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 normal business hours on any weekday other than public holidays, up to and including Thursday, 19 December 2013:

- (i) the memorandum and articles of association of the Company;
- (ii) the letter from the Independent Board Committee;
- (iii) the annual reports of the Company for the years ended 31 December 2011 and 2012 and the interim report of the Company for the six months ended 30 June 2013;

- (iv) the unaudited pro forma statement of consolidated net tangible assets of the Group, the text of which is set out in Appendix II to this circular;
- (v) the assurance report from Ernst & Young on the compilation of the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;
- (vi) the letter from Independent Financial Adviser;
- (vii) the written consent referred to in the paragraph headed “Expert and consent” to this appendix;
- (viii) the material contracts referred to in the paragraph headed “Material Contracts” to this appendix; and
- (ix) this circular.

NOTICE OF EGM

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)

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the “**EGM**”) of Perception Digital Holdings Limited (the “**Company**”) will be held at Meeting Room 04, 1st Floor, Core Building 1, No. 1 Science Park East Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong at 9:00 a.m. on Thursday, 19 December 2013 for the purpose of considering, and if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company (unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 3 December 2013 (the “**Circular**”)):

ORDINARY RESOLUTION

1. “**THAT** subject to the fulfillment of the conditions set out in the Underwriting Agreement dated 14 November 2013 entered into between the Company and the Underwriters in respect of the Open Offer (a copy of the Underwriting Agreement has been tabled at the meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification):
 - (a) the allotment and issue of not less than 1,344,600,000 Offer Shares but not more than 1,367,309,868 Offer Shares by way of open offer at the subscription price of HK\$0.05 per Offer Share to the Qualifying Shareholders on the basis of six (6) Offer Shares for every five (5) Shares held on the Record Date, other than the Excluded Shareholders whom the Directors, after making relevant enquiry as required under the Listing Rules, consider their exclusion from the Open Offer to be necessary or expedient on account of either the legal restrictions under the law of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, and on the terms and conditions as set out in the Circular, and such other terms and conditions as may be determined by the Directors be and is hereby approved;
 - (b) the Underwriting Agreement be and is hereby approved, confirmed and ratified and any Directors be and is hereby authorised to do such acts or execute such documents which may be necessary, desirable or expedient in his or her opinion to carry into effect or to give effect to the terms of the Underwriting Agreement;

NOTICE OF EGM

- (c) the absence of arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and is hereby approved, confirmed and ratified;
- (d) the Directors of the Company be and are hereby specifically authorised to allot and issue up to 10,000,000 shares of the Company for the purpose of the requirement to allot and issue additional shares under the adjustments required to be made to the exercise price of the Company's options granted under the option agreement dated 11 August 2011 entered into between the Company and Teleepoch Limited; and
- (e) the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to and in connection with the Open Offer and to do all such acts and things and execute all such documents which in their opinion may be necessary, desirable or expedient to carry out or give effect to or in connection with the Open Offer or any transactions contemplated thereby."