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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other independent professional adviser.

**If you have sold or transferred** all your shares in Perception Digital Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, licensed securities dealers or registered institutions in securities or other agent through whom the sale was effected for transmission to the purchaser(s) or transferee(s).

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## **PERCEPTION DIGITAL HOLDINGS LIMITED**

### **幻音數碼控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1822)**

## **SHARE SUBSCRIPTION UNDER SPECIFIC MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING**

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Capitalised terms used in this cover page have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 6 to 19 of this circular. A letter from the Independent Financial Adviser containing its advice in respect of the Share Subscription to the Independent Shareholders is set out on pages 20 to 38 of this circular. A notice convening the EGM to be held at Level 20, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong on 2 July 2014 at 9:00 a.m. is set out on pages 39 to 41 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjourned meeting should you so wish.

16 June 2014

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## DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“associate”	has the meaning ascribed to it under the Listing Rules
“Announcement”	the announcement jointly published by the Company and the Offeror dated 8 May 2014 in relation to, among others, the Share Subscription, the Share Purchase and the Offers
“Board”	the board of directors of the Company
“Business Day”	any day on which commercial banks are open for business in Hong Kong (excluding Saturdays, Sundays, public holidays and any weekday on which Typhoon Signal No. 8 or higher is hoisted or a black rain storm warning is given in Hong Kong at any time during 9:00 a.m. to 5:00 p.m.)
“BVI”	the British Virgin Islands
“CCB International”	CCB International Capital Limited, a corporation licensed to carry out type 1, type 4 and type 6 regulated activities under Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the financial adviser to the Offeror
“Company”	Perception Digital Holdings Limited 幻音數碼控股有限公司, an exempted company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Share Subscription and the Share Purchase
“Director(s)”	the director(s) of the Company
“Disinterested Shares”	all the Shares in issue, other than the Shares which are owned or agreed to be acquired by the Offeror and the parties acting in concert with it as at the date of the offer document with respect to the Offers to be issued by the Offeror for compliance with the Takeovers Code

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened to consider and approve, inter alia, the issue of Subscription Shares
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of the Executive Director
“First Vendor”	Swanland Management Limited, a company incorporated in BVI
“Fourth Vendor”	Keen Platinum Limited, a company incorporated in BVI
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the board committee of the Company comprising Mr. William Keith Jacobsen, Ms. Zhou Jing and Mr. Ng Wai Hung (being all the independent non-executive Directors) to advise the holders of the Disinterested Shares and the Options in respect of the Offers
“Independent Financial Adviser”	Platinum Securities Company Limited, an independent financial adviser appointed by the Independent Board Committee to advise (i) the Independent Board Committee, the holders of the Disinterested Shares and the Options in relation to the terms and conditions of the Offers and (ii) the Independent Shareholders in relation to the Share Subscription
“Independent Shareholders”	the Shareholders other than the Vendors and their respective associates
“Independent Third Party(ies)”	person(s) or company(s) who/which is/are not connected with the directors, chief executive or substantial shareholders (as defined under the Listing Rules) of the Company or any of its subsidiaries, or any of their respective associates

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## DEFINITIONS

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“Latest Practicable Date”	12 June 2014 being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chan”	Mr. Chan Yuen Ming, the legal and beneficial owner of the entire issued share capital of the Third Vendor
“Mr. Mung”	Mr. Mung Wai Ming, an executive Director and the legal and beneficial owner of the entire issued share capital of the Fourth Vendor
“Ms. Loh”	Ms. Loh Jiah Yee Katherine, the majority ultimate beneficial owner of the First Vendor and the Second Vendor
“Offeror”	Nat-Ace Pharmaceutical Ltd. 邦強醫藥有限公司, a company incorporated in BVI on 2 January 2008 with limited liability and held by Deng Shufen, Liu Jianguan and Gui Bin as to 60%, 20% and 20% respectively. Each of the Offeror and its ultimate beneficial owners, namely, Deng Shufen, Liu Jianguan and Gui Bin, is an Independent Third Party
“Offer Price”	the amount of HK\$0.168 per Share
“Offers”	the Share Offer and the Option Offer
“Options”	the outstanding options granted by the Company pursuant to a supply chain management agreement dated 11 August 2011 and an option agreement dated 11 August 2011 entered into between Perception Digital Technology (BVI) Ltd., a subsidiary of the Company, and Teleepoch Limited comprising both the vested options to subscribe 25,277,957 Shares at a price of HK\$0.233 per Share and the unvested options to subscribe 76,241,580 Shares at a price of HK\$0.233 per Share
“Option Offer”	the possible unconditional mandatory cash offer to be made by CCB International on behalf of the Offeror for the cancellation of the Options

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## DEFINITIONS

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“PRC”	the People’s Republic of China (but excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purpose of this circular)
“Registrar”	Tricor Investor Services Limited, being the Hong Kong branch share registrar and transfer office of the Company, located at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Sales Shares”	424,832,122 Shares, 177,634,699 Shares, 264,000,000 Shares and 143,971,300 Shares held by the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor, respectively
“Second Vendor”	Masteray Limited, a company incorporated in BVI
“Sale and Purchase Agreement”	the conditional agreement dated 26 April 2014 among the Vendors, Ms. Loh, Mr. Chan, Mr. Mung, and the Offeror in respect of the Share Purchase
“Shareholders”	registered holders of Shares
“Shares Offer”	the possible unconditional mandatory cash offer for the Disinterested Shares at the Offer Price to be made by CCB International on behalf of the Offeror in accordance with the Takeovers Code
“Share Purchase”	the purchase of the Sale Shares by the Offeror
“Share Subscription”	the subscription of the Subscription Shares by the Offeror
“Shares”	shares of HK\$0.01 each in the share capital of the Company
“Specific Mandate”	the specific mandate to be granted to the Directors to issue the Subscription Shares by the Independent Shareholders
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the conditional agreement dated 26 April 2014 between the Company and the Offeror in respect of the Share Subscription

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## DEFINITIONS

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“Subscription Shares”	616,275,000 Shares to be issued by the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Merger
“Third Vendor”	Capital Fame Technology Limited, a company incorporated in BVI
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“Vendors”	the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor
“Warrants”	the warrants issued by the Company entitling the holders thereof to subscribe Shares in aggregate up to HK\$16,807,500 at a subscription price of HK\$0.14 per Share
“%”	per cent.

*In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.*

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## LETTER FROM THE BOARD

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

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 1822)

*Executive Directors:*

Mr. Mung, Wai Ming (*Chairman*)  
Ms. Liu, Yee Nee  
Mr. Lee, Rabi

*Registered Office:*

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

*Independent non-executive Directors:*

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

*Head Office and principal of Business:*

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

16 June 2014

*To the Shareholders*

Dear Sir or Madam,

### SHARE SUBSCRIPTION UNDER SPECIFIC MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

#### INTRODUCTION

We refer to the Announcement whereby the Company and the Offeror jointly announced, among others, that:

- 1) on 26 April 2014, the Company and the Offeror entered into the Subscription Agreement pursuant to which the Company agreed to issue, and the Offeror agreed to subscribe for the Subscription Shares, representing 25.00% of the existing issued share capital of the Company as at the Latest Practicable Date, for an aggregate consideration of HK\$103,534,200 in cash at the Offer Price;



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## LETTER FROM THE BOARD

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- 2) on 26 April 2014, the Vendors and the Offeror entered into the Sale and Purchase Agreement pursuant to which the Offeror has agreed to purchase, and the Vendors have agreed to sell, at the Offer Price, 1,010,438,121 Shares, representing approximately 40.99% of the existing issued share capital of the Company as at the Latest Practicable Date. Completion of the Share Subscription and the Share Purchase will take place simultaneously; and
- 3) upon Completion and pursuant to Rule 26.1 of the Takeovers Code, CCB International will, on behalf of the Offeror, make an unconditional mandatory cash offer to acquire all the Disinterested Shares and cancel the Options.

The purpose of this circular is to provide you with, among other things, further information on the Share Subscription and a notice of the EGM.

### THE SHARE SUBSCRIPTION

On 26 April 2014, the Company and the Offeror entered into the Subscription Agreement. A summary of the major terms of the Subscription Agreement is set out below.

- Date**            26 April 2014
- Parties**        (i)    the Company as the issuer of the Subscription Shares; and
- (ii)    the Offeror as the subscriber of the Subscription Shares.

The Offeror and its ultimate beneficial owners are Independent Third Parties.

### Subject matter

The Company agreed to issue, and the Offeror agreed to subscribe for, an aggregate of 616,275,000 Subscription Shares for an aggregate consideration of HK\$103,534,200 in cash at the Offer Price.

The Subscription Shares represent (a) 25.00% of the existing issued share capital of the Company as at the Latest Practicable Date, (b) approximately 20.00% of the enlarged issued share capital of the Company (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion) and (c) approximately 18.66% of the enlarged issued share capital of the Company (assuming that the Subscription Shares are issued and all the Options and the Warrants have been exercised at or prior to Completion for illustration purpose only).

The Subscription Shares will be allotted and issued under the Specific Mandate which will be subject to the approval of the Independent Shareholders at the EGM.

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## LETTER FROM THE BOARD

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### Offer Price

The Offer Price represents:

- (i) a premium of approximately 1,300.0% to the audited net asset value per Share as at 31 December 2013;
- (ii) a discount of approximately 6.7% to the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on the last trading day immediately prior to the date of the Subscription Agreement;
- (iii) a premium of approximately 16.7% to the average closing price of HK\$0.144 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement;
- (iv) a premium of approximately 25.4% to the average closing price of HK\$0.134 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreement;
- (v) a premium of approximately 35.5% over the average closing price of HK\$0.124 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to the date of the Subscription Agreement; and
- (vi) a premium of approximately 52.7% to the average closing price of HK\$0.110 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days immediately prior to the date of the Subscription Agreement.

The Offer Price was determined and negotiated on an arm's length basis between the parties to the Subscription Agreement with reference to the recent trading prices of the Shares as quoted on the Stock Exchange. The Directors (including the independent non-executive Directors) consider that the Subscription Agreement was entered into under normal commercial terms following arm's length negotiations between the Company and the Offeror and that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Conditions

Completion is conditional upon:

- (i) the passing of a resolution by the Independent Shareholders at the EGM approving the Subscription Agreement, the Specific Mandate and the transactions contemplated thereunder as required under applicable laws and regulations (including without limitation the Listing Rules);
- (ii) the Listing Committee of the Stock Exchange having granted the listing approval in respect of, and permission to deal in, the Subscription Shares;
- (iii) save as disclosed by the Company, no suit or other proceedings is pending or threatened by any party before any court or competent governmental authority seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with any part of the transaction contemplated under the Subscription Agreement; and
- (iv)
  - (a) the representations, warranties and undertakings given by the Company under the Subscription Agreement having remained true and accurate, and not misleading in all material respects, as at the date of the Subscription Agreement and the date of Completion; and
  - (b) the representations, warranties and covenants given or procured to be given by the Offeror under the Subscription Agreement having remained true and accurate, and not misleading in all material respects, as at the date of the Subscription Agreement and the date of Completion.

If any of the conditions precedent set out above is not satisfied or waived on or before 30 September 2014, the Subscription Agreement shall automatically terminate except certain clauses as specified therein and without liability to any party thereto save for the rights of any party thereto accrued prior to such termination.

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## LETTER FROM THE BOARD

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### **Completion**

Completion of the Share Subscription is expected to take place on the fifth Business Day after the fulfilment of the last of the conditions precedent set out above (except those set out in (iii) and (iv) above).

### **Intended use of proceeds from the Share Subscription**

The Company will use the estimated net proceeds from the Share Subscription of approximately HK\$98.5 million to improve the working capital of the Group and explore new business opportunities for the Group.

### **Ranking of the Subscription Shares**

The Subscription Shares (when allotted, issued and fully paid) will rank pari passu with the Shares in issue on the date of allotment and issue of the Subscription Shares.

### **Application for listing**

An application will be made by the Company for the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange.

### **THE SHARE PURCHASE**

On 26 April 2014, (i) the Vendors (as the vendors), (ii) Ms. Loh, Mr. Chan and Mr. Mung (as the warrantors) and (iii) the Offeror (as the purchaser) entered into the Sale and Purchase Agreement pursuant to which the Offeror has agreed to purchase, and the Vendors have agreed to sell at the Offer Price, in aggregate, 1,010,438,121 Shares, representing (a) approximately 40.99% of the existing issued share capital of the Company as at the Latest Practicable Date, (b) approximately 32.79% of the enlarged issued share capital of the Company (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion) and (c) approximately 30.59% of the enlarged issued share capital of the Company (assuming that the Subscription Shares are issued and all the Options and the Warrants have been exercised at or prior to Completion for illustration purpose only).

Upon execution of the Sale and Purchase Agreement, the Offeror paid to the Vendors a total deposit in the sum of HK\$20,000,000 (the “**Deposit**”) which is being held by an escrow agent appointed by the Vendors and the Offeror jointly. Upon Completion, the Vendors shall appropriate the Deposit, and the Offeror shall pay to the Vendors the total amount of consideration for the Share Purchase (less the amount of the Deposit).

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## LETTER FROM THE BOARD

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Completion of the Share Purchase is subject to the following conditions being satisfied or waived on or before 30 September 2014:

- (i) the Subscription Agreement being entered into and becoming unconditional pursuant to the terms of the Subscription Agreement;
- (ii) (a) the warranties made by each of the Vendors, Ms. Loh, Mr. Chan and Mr. Mung under the Sale and Purchase Agreement having remained true and accurate, and not misleading, in all material respects, on the date of the Sale and Purchase Agreement and on the date of Completion; and  
  
(b) the warranties made by the Offeror in the Sale and Purchase Agreement having remained true and accurate, and not misleading, in all material respects, on the date of the Sale and Purchase Agreement and on the date of Completion;
- (iii) (a) no events having occurred which has or causes (x) a material adverse effect on the business, operations, financial condition, assets or liabilities of the Group taken as a whole or (y) material adverse effect on the ability of the Vendors to perform or comply with their respective obligations, undertakings or covenants under the Sale and Purchase Agreement; and  
  
(b) no events having occurred which has a material adverse effect on the ability of the Offeror to perform or comply with its obligations, undertakings or covenants under the Sale and Purchase Agreement; and
- (iv) (a) there being no ongoing, pending or threatened legal proceedings against the Vendors which forbid, restrict or impose material conditions or restrictions on or in any way challenge the transactions contemplated under the Sale and Purchase Agreement; and  
  
(b) there being no ongoing, pending or threatened legal proceedings against the Offeror which forbid, restrict or impose material conditions or restrictions on or in any way challenge the transactions contemplated under the Sale and Purchase Agreement.

Completion is expected to take place contemporaneously with completion of the Share Subscription.

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## LETTER FROM THE BOARD

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### POSSIBLE UNCONDITIONAL MANDATORY CASH OFFER

#### The Share Offer and the Option Offer

As at the Latest Practicable Date, the Offeror and parties acting in concert with it do not hold any Shares. On Completion, the Offeror and the parties acting in concert with it will own in aggregate 1,626,713,121 Shares, representing (a) approximately 65.99% of the existing issued share capital of the Company as at the Latest Practicable Date; (b) approximately 52.79% of the enlarged issued share capital of the Company as at Completion (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion) and (c) approximately 49.25% of the enlarged issued share capital of the Company as at Completion (assuming that the Subscription Shares are issued and all the Options and the Warrants have been exercised at or prior to Completion for illustration purpose only).

Upon Completion and pursuant to Rule 26.1 of the Takeovers Code, CCB International will, on behalf of the Offeror, make an unconditional mandatory cash offer to acquire all the Disinterested Shares, and to cancel all the Options on the following basis:

**For each Disinterested Share                      HK\$0.168 payable in cash**

**For each Option                                      HK\$0.0001 payable in cash**

As at the Latest Practicable Date, the Company has 2,465,100,000 Shares in issue and save for the Options and the Warrants, the Company has no outstanding warrants, options, derivatives in respect of the Shares or securities convertible into Shares.

The Offers, if and when made, will be unconditional in all respects.

As at the Latest Practicable Date, the Options are all out-of-the-money with reference to the Offer Price.

Pursuant to the Sale and Purchase Agreement, the Third Vendor (being the only holder of the Warrants) has undertaken to the Offeror not to (i) accept any general offer which may be made by the Offeror with respect to the Warrants held by it, (ii) exercise the Warrants held by it prior to the closing of such offer, and (iii) dispose of or transfer the Warrants held by it to any other party prior to the closing of such offer. Accordingly, the Offers will not be extended to the holder of the Warrants.

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## LETTER FROM THE BOARD

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### **Total consideration for the Offers**

On the basis of 2,465,100,000 Shares in issue as at the Latest Practicable Date, the Share Offer values the equity value of the Company at HK\$414,136,800. On the basis of 1,454,661,879 Disinterested Shares as at the Latest Practicable Date and assuming that there is no change in the enlarged issued share capital of the Company prior to the making of the Offers, the amount of cash required to effect the Share Offer is approximately HK\$244,383,195.

Assuming that all the Options under the Option Offer are tendered at HK\$0.0001 each, the total consideration payable by the Offeror under the Option Offer will be HK\$10,152.

Assuming that all the vested Options are fully exercised prior to the making of the Offers, there will be 2,490,377,957 Shares in issue and the entire issued share capital of the Company would be valued at approximately HK\$418,383,496 under the Share Offer, and there will be 1,479,939,836 Disinterested Shares, which will be valued at approximately HK\$248,629,892.

### **Effect of accepting the Offers**

By accepting the Share Offer, the holders of the Disinterested Shares will sell to the Offeror the Disinterested Shares free from all liens, charges, encumbrances, rights of pre-emption and any other third-party rights of any nature and together with all rights attaching to them on or after the date on which the Offers are made, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offers are made.

Following the acceptance of the Option Offer, the Options will be cancelled.

Acceptance of the Offers will be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

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## LETTER FROM THE BOARD

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### **Future intention of the Offeror**

Upon Completion, the Offeror will become the controlling shareholder of the Company expected to be interested in approximately 52.79% of the enlarged issued share capital of the Company (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion). After Completion, the Offeror will propose to remove all the existing Directors and nominate new Directors to the Board subject to compliance with all the applicable regulatory requirements, including the Takeovers Code and the Listing Rules. Such proposed changes have not yet been finalised at the Latest Practicable Date. A further announcement will be made upon any changes to the directorship of the Company.

The Offeror intends to continue the current business operation of the Group after Completion. The Offeror will also conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review, the Offeror may explore other business opportunities for the Company such as acquisitions or investments in assets and/or businesses or cooperation with business partners of the Offeror with a view to enhance its growth and future development. As at the Latest Practicable Date, the Offeror has no plan, and has not engaged in any discussion or negotiation, on any injection of any assets or businesses into the Group.

### **Maintaining the listing status of the Company**

The Offeror intends to maintain the listing of the Shares on the Main Board of the Stock Exchange. The Company and the new Directors to be nominated by the Offeror will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offers to ensure that not less than 25% of the Shares will be held by the public.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the Shares are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there is insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.



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## LETTER FROM THE BOARD

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### **General information on the Offers**

The Company has established the Independent Board Committee to advise the holders of the Disinterested Shares and the Options in relation to the terms and conditions of the Offers. The Independent Financial Adviser will advise the Independent Board Committee and the holders of the Disinterested Shares and the Options in respect of the Offers.

Pursuant to Rule 8.2 of the Takeovers Code, the offer document containing, inter alia, the terms of the Offers, together with forms of acceptance and transfer, should be posted to the Shareholders and the holders of the Options by or on behalf of the Offeror on or before 29 May 2014, being within 21 days from the date of the Announcement. The Offeror and the Company intend that a composite offer and response document in connection with the Offers setting out, inter alia, details of the Offers (accompanied by the acceptance and transfer form) and incorporating the respective letters of advice from the Independent Board Committee and the Independent Financial Adviser on the Offers will be issued and despatched by the Offeror and the Company jointly to the Shareholders and the holders of the Options in accordance with the Takeovers Code in due course. Pursuant to Note 2 to Rule 8.2 of the Takeovers Code, the Executive's consent is required if the making of the Offers is subject to prior fulfillment of certain conditions precedent which cannot be fulfilled within the time period contemplated by Rule 8.2 of the Takeovers Code. Application will be made by the Offeror for the Executive's consent pursuant to Note 2 to Rule 8.2 of the Takeovers Code to extend the deadline for the despatch of such composite offer and response document to be made within seven days of Completion or 16 October 2014, whichever is the earliest.

An Independent Board Committee has been established for the purpose of advising the holders of the Disinterested Shares and the Options in relation to the terms and conditions of the Offers. None of the members of the Independent Board Committee has any material interest in respect of the Share Subscription or the Offers.

Please refer to the Announcement for further information of the Offers.

## LETTER FROM THE BOARD

### SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and on Completion (assuming that there is no other change to the enlarged issued share capital of the Company up to Completion):

Shareholder	As at the Latest Practicable Date		Immediately upon Completion (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion)		Immediately upon Completion (assuming that the Subscription Shares are issued and all the Options and the Warrants have been exercised at or prior to Completion) <i>(Notes 1 and 2)</i>	
	<i>Number of Shares</i>	<i>% of issued share capital</i>	<i>Number of Shares</i>	<i>% of issued share capital</i>	<i>Number of Shares</i>	<i>% of issued share capital</i>
The Offeror and parties acting in concert with it	–	–	1,626,713,121	52.79	1,626,713,121	49.25
The First Vendor	424,832,122	17.23	–	–	–	–
The Second Vendor	177,634,699	7.21	–	–	–	–
The Third Vendor	264,000,000	10.71	–	–	120,053,571	3.63
The Fourth Vendor	143,971,300	5.84	–	–	–	–
Mr. Lee Rabi (a Director)	270,000	0.01	270,000	0.01	270,000	0.01
Other public Shareholders	1,454,391,879	59.00	1,454,391,879	47.20	1,555,911,416	47.11
<b>Total</b>	<b>2,465,100,000</b>	<b>100.00</b>	<b>3,081,375,000</b>	<b>100.00</b>	<b>3,302,948,108</b>	<b>100.00</b>

*Notes:*

- This is for illustration purpose only as the Third Vendor has undertaken to the Offeror not to (i) accept any general offer made by the Offeror with respect to the Warrants held by it, (ii) exercise the Warrants held by it prior to the closing of any such offer, and (iii) dispose of or transfer the Warrants held by it to any other party prior to the closing of any such offer, pursuant to the Sale and Purchase Agreement.
- This is for illustration purpose only assuming that all the Options (including both the vested and the unvested options) are exercisable and have been exercised at or prior to Completion.

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## LETTER FROM THE BOARD

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### GENERAL INFORMATION OF THE PARTIES TO THE SUBSCRIPTION AGREEMENT

The Company was incorporated as an exempted company with limited liability in the Cayman Islands and its Shares have been listed on the Stock Exchange since 16 December 2009.

The Group is principally engaged in the research, design, development and sale of digital signal processing (“**DSP**”) based consumer electronics devices and platforms, including embedded firmware; the provision of solutions and services to customers for their DSP-based consumer electronic devices and platforms; and the trading of electronic components.

The Offeror was incorporated in BVI on 2 January 2008 with limited liability and held by Deng Shufen, Liu Jianguan and Gui Bin as to 60%, 20% and 20%, respectively. Thus, Deng Shufen is the controlling shareholder of the Offeror. The Offeror is an investment holding company.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, each of the Offeror and its ultimate beneficial owners, namely, Deng Shufen, Liu Jianguan and Gui Bin, is an Independent Third Party.

### FUND RAISING EXERCISE OF THE COMPANY DURING THE PAST 12 MONTHS

Save for completion of the placing of new shares on 2 September 2013 (the “**Placing**”) and completion of the open offer on 24 January 2014 (the “**Open Offer**”) (details of which are set out in the announcements of the Company dated 2 September 2013 and 24 January 2014, respectively), there has been no fund raising on any issue of equity securities in the twelve months immediately preceding the Latest Practicable Date. The table below sets out the total proceeds raised from the Placing and the Open Offer and the use of such proceeds and the intended use of any proceeds not yet utilised.

<b>The fund raising activity</b>	<b>The approximate net proceeds (HK\$)</b>	<b>Actual use of the proceeds</b>	<b>Intended use of proceeds not yet utilised</b>
The Placing	31.7 million	50% of the net proceeds was used to reduce the Group’s indebtedness and the other 50% of the net proceeds was used for general working capital the Group	None
The Open Offer	64.9 million	50% of the net proceeds was used to reduce the Group’s indebtedness	50% of the net proceeds has been placed as bank deposits for general working capital

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## LETTER FROM THE BOARD

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### EGM

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate for the allotment and issue of the Subscription Shares. A notice of the EGM is set out on pages 39 to 41 of this circular. At the EGM, resolutions will be proposed to approve inter alia, the Share Subscription.

To the best of the Director's knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, the Vendors and their respective associates are considered to have material interests in the Share Subscription and therefore are required to abstain from voting on the resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Pursuant to the Listing Rules, the Company will procure that the chairman of the EGM to demand the vote for the resolutions relating to the Share Subscription to be taken by a poll. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjourned meeting should you so wish.

### 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 or this circular misleading.

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

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Financial Adviser which is set out on pages 20 to 38 of this circular. The Directors (including the independent non-executive Directors) are of the opinion that the Share Subscription and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend that all Independent Shareholders should vote in favour of the resolutions proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully

For and on behalf of the Board of  
**Perception Digital Holdings Limited**

幻音數碼控股有限公司

**Mung Wai Ming**

*Chairman*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Shareholders in respect of the Share Subscription under Specific Mandate.*



**PLATINUM** Securities Company Limited

21/F LHT Tower  
31 Queen's Road Central  
Hong Kong

**Telephone** (852) 2841 7000

**Facsimile** (852) 2522 2700

**Website** [www.platinum-asia.com](http://www.platinum-asia.com)

16 June 2014

*To the Independent Shareholders*

Dear Sir or Madam,

### SHARE SUBSCRIPTION UNDER SPECIFIC MANDATE

#### INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Shareholders in respect of the Share Subscription under Specific Mandate (the "Transaction"). Details of the Transaction are contained in the "Letter from the Board" as set out in the circular of the Company dated 16 June 2014 (the "Circular"). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 8 May 2014, the Offeror and the Company jointly announced that, on 26 April 2014, (i) the Company and the Offeror entered into the Subscription Agreement pursuant to which the Company agreed to issue and the Offeror agreed to subscribe for, an aggregate of 616,275,000 Subscription Shares for an aggregate consideration of HK\$103,534,200 in cash at the Offer Price of HK\$0.168 per Share, representing approximately 20.00% of the enlarged issued share capital of the Company (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion). The allotment and issue of the Subscription Shares will be subject to a Specific Mandate to be approved by the Independent Shareholders at the EGM by ordinary resolution; and (ii) the Vendors and the Offeror entered into the Sale and Purchase Agreement pursuant to which the Offeror has agreed to purchase, and the Vendors have agreed to sell 1,010,438,121 Shares, representing approximately 32.79% of the enlarged issued share capital of the Company (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion). Completion of the Share Purchase is expected to take place contemporaneously with completion of the Share Subscription.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On Completion, the Offeror and the parties acting in concert with it will own in aggregate 1,626,713,121 Shares, representing approximately 52.79% of the enlarged issued share capital of the Company as at Completion (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion). Upon Completion and pursuant to Rule 26.1 of the Takeovers Code, CCB International will, on behalf of the Offeror, make an unconditional mandatory cash offer to acquire all the Disinterested Shares, and to cancel all the Options using the Offer Price, which is the same in the Share Subscription and Share Purchase.

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Shareholders as to whether the terms of the Transaction were agreed on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things: (i) the annual report of the Company for the year ended 31 December 2012 (the “2012 Annual Report”); (ii) the annual report of the Company for the year ended 31 December 2013 (the “2013 Annual Report”); (iii) the Subscription Agreement; (iv) the information and facts contained or referred to in the Circular; (v) the information and facts supplied by the Company and its advisers; and (vi) the opinions expressed by and the representations of the Directors and management of the Group.

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company, which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our recommendation regarding the Transaction.

We are independent from, and are not associated with the Offeror, the Company or any other party to the Transaction, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Transaction. We will receive a fee from the Company for our role as the Independent Financial Adviser in relation to the Transaction. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Transaction or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Shareholders regarding the Transaction, we have taken into account the following principal factors:

- 1. Background of and reasons for the Share Subscription**

***Information and historical financial performance of the Group***

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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below are the financial performance of the Group for the three years ended 31 December 2013 as extracted from the 2012 Annual Report and the 2013 Annual Report, which were prepared in accordance with the Hong Kong Financial Reporting Standards:

	<b>For the year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Revenue	533,406,703	340,869,541	200,022,317
Costs of sales	<u>(486,958,388)</u>	<u>(315,323,262)</u>	<u>(179,396,792)</u>
Gross profit	46,448,315	25,546,279	20,625,525
Other income	8,748,028	1,358,878	1,067,008
Research and development costs	(8,321,705)	(23,678,720)	(5,125,959)
Selling and distribution expenses	(13,923,258)	(16,188,543)	(12,729,657)
General and administrative expenses	(45,467,014)	(39,304,434)	(19,385,288)
Other expenses, net	(7,435,420)	(37,187,744)	(42,893,891)
Finance costs	<u>(5,434,911)</u>	<u>(8,556,469)</u>	<u>(6,853,092)</u>
Loss before tax	(25,385,965)	(98,010,753)	(65,295,354)
Income tax credit	<u>3,397,094</u>	<u>1,364,311</u>	<u>64,217</u>
Loss for the year	<u><u>(21,988,871)</u></u>	<u><u>(96,646,442)</u></u>	<u><u>(65,231,137)</u></u>

*Financial results for the year ended 31 December 2013 compared with that for the year ended 31 December 2012*

During the year ended 31 December 2013 (“FY2013”), revenue of the Group decreased by approximately 41.3% to approximately HK\$200.0 million from HK\$340.9 million as recorded in the year ended 31 December 2012 (“FY2012”). The decrease was mainly attributable to the decrease in sales of goods by 42.6% from approximately HK\$337.2 million in FY2012 to approximately HK\$193.5 million during FY2013, which was mainly because of the change in product mix in FY2013 where the Group has been focusing on the promotion and sale of golf swing analyser (“3BaysGSA”), which was launched in the second half of 2012 with much higher profit margin than the traditional products of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The overall gross profit of the Group during FY2013 was approximately HK\$20.6 million, which decreased by approximately 19.3% as compared to the gross profit in FY2012. However, the gross profit margin increased by approximately 2.8 percentage point from 7.5% to 10.3%. This was mainly contributed by the increase in sale of the 3BaysGSA, which commanded a higher profit margin than other products of the Group.

During FY2013, the net loss of the Group narrowed down to approximately HK\$65.2 million from HK\$96.6 million as recorded in FY2012, mainly because of (i) the decrease in operating expenses by approximately 49.7% from approximately HK\$87.7 million in FY2012 to approximately HK\$44.1 million in FY2013 after the implementation of certain cost-saving measures, including but not limited to (a) streamlining the operation flows and focus on core product development; (b) centralizing employees in Hong Kong from two office premises to one office premise; and (c) tightening cost control policies on various expenditures in 2013; and (ii) the increase in other expenses resulted from impairment of certain trade and other receivables amounted to approximately HK\$38.7 million.

*Financial results for the year ended 31 December 2012 compared with that for the year ended 31 December 2011*

For FY2012, the revenue of the Group decreased by approximately 36.1% to HK\$340.9 million from HK\$533.4 million as recorded in the year ended 31 December 2011 (“FY2011”). The decrease was mainly attributable to (i) the decrease in sales of products by 34.6% from HK\$515.3 million in FY2011 to HK\$337.2 million in FY2012; and (ii) the decrease in service income from rendering of project development and management services by HK\$11.4 million, or 76.2%, from HK\$15.0 million in FY2011 to HK\$3.6 million in FY2012, mainly because customers were more conservative in researching and developing new products after the prolonged instability of the global economic condition.

The overall gross profit of the Group during FY2012 was severely encumbered by the continuing impact from the European debt crisis during FY2012, which led to a decrease by approximately 45.0% to HK\$25.5 million from HK\$46.4 million as recorded in FY2011. This was mainly resulted from the decline in service income from the provision of project development and management services, which commanded higher profit margin. This led to a net decrease in the overall gross profit margin of the Group by 1.2% for FY2012 as compared to FY2011.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The net loss of the Group increased significantly to HK\$96.6 million during FY2012 from HK\$22.0 million as recorded in FY2011 mainly because of (i) the decrease in gross profit as abovementioned; (ii) the increase in other operating expenses resulted from (a) the write-off of inventories of HK\$10.8 million; (b) 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 (c) impairment of certain trade and other receivables amounted to HK\$17.3 million.

As illustrated by the financial performance of the Group for the three years ended 31 December 2013 and in summary, the Group's revenue had been decreasing and all three years ended 31 December 2013 were loss-making.

### ***Information on the Offeror and its intentions regarding the future of the Group***

#### ***(i) Background of the Offeror***

The Offeror was incorporated in BVI on 2 January 2008 with limited liability and held by Deng Shufen, Liu Jianguan and Gui Bin as to 60%, 20% and 20%, respectively. Thus, Deng Shufen is the controlling shareholder of the Offeror. The Offeror is an investment holding company. Furthermore, the Offeror and its ultimate beneficial owners are Independent Third Parties.

#### ***(ii) Intentions of the Offeror regarding the Group***

The Offeror intends to continue the current business operations of the Group after Completion. The Offeror will also conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review, the Offeror may explore other business opportunities for the Company such as acquisitions or investments in assets and/or businesses or cooperation with business partners of the Offeror with a view to enhance its growth and future development. As at the Latest Practicable Date, the Offeror has no plan, and has not engaged in any discussion or negotiation, on any injection of any assets or businesses into the Group.

### ***Use of proceeds and reasons for the entering into of the Subscription Agreement***

The Company will use the estimated net proceeds from the Share Subscription of approximately HK\$98.5 million to improve the working capital of the Group and explore new business opportunities for the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to the 2013 Annual Report, the Group had working capital of HK\$1.4 million as of 31 December 2013, which was HK\$7.9 million lower than its working capital level of HK\$9.3 million as of 31 December 2012. The declined working capital level shows that the Group may have pressure in satisfying its short term obligations. In respect of that, we noted that the Group also had an issue of offer shares in January 2014 (the “Open Offer”), and this would improve the Group’s working capital position as mentioned above. Furthermore, we understand that the Company will use the net proceeds from the Share Subscription to improve the working capital of the Group, and with respect to its recent low working capital level and the significant decline as compared to the recent financial years, we consider it would be in the interest of the Group to deploy the net proceeds from the Share Subscription to improve its working capital.

We noted that, the Offeror intends to continue the current business operation of the Group after Completion, while it may also explore other business opportunities for the Company such as acquisitions or investments in assets and/or businesses or cooperation with business partners of the Offeror with a view to enhance its growth and future development. Although the Offeror has not engaged in any discussion or negotiation on any injection of any assets or businesses into the Group, having considered that the Group has been loss making for the past three financial years from FY2011 to the most current FY2013, this may suggest that the Company’s current business operation may not be profitable going forward and we consider that it is reasonable for the Group to explore new business opportunities in addition to its current business operation in order to sustain its business. Therefore, if the Group is to explore new business opportunities as well as maintaining its current business operation at the same time, given the Group’s current low working capital level and loss making position, we consider it is necessary for the Group to raise sufficient funds through the Share Subscription in order to have the financial means to explore any new business opportunities.

In view of the above, we have taken into consideration of (i) the significant decline in working capital level of the Group as of 31 December 2013, (ii) it is reasonable for the Group to explore new business opportunities to sustain its business operations given its loss making position and (iii) additional funding is required if the Group is to explore new business opportunities and maintaining its current business operation at the same time, we consider that entering into of the Subscription Agreement is in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Principal terms of the Subscription Agreement

On 26 April 2014, the Company and the Offeror entered into the Subscription Agreement. A summary of the major terms of the Subscription Agreement is set out below.

<b>Date</b>	26 April 2014
<b>Parties</b>	(i) the Company as the issuer of the Subscription Shares; and (ii) the Offeror as the subscriber of the Subscription Shares.

The Offeror and its ultimate beneficial owners are Independent Third Parties.

#### ***Subject matter***

The Company agreed to issue, and the Offeror agreed to subscribe for, an aggregate of 616,275,000 Subscription Shares for an aggregate consideration of HK\$103,534,200 in cash at the Offer Price.

The Subscription Shares represent (a) 25.00% of the existing issued share capital of the Company as at the Latest Practicable Date, (b) approximately 20.00% of the enlarged issued share capital of the Company (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion) and (c) approximately 18.66% of the enlarged issued share capital of the Company (assuming that the Subscription Shares are issued and all the Options and the Warrants have been exercised at or prior to Completion for illustration purpose only).

The Subscription Shares will be allotted and issued under the Specific Mandate which will be subject to the approval of the Independent Shareholders at the EGM.

#### ***Offer Price***

The Offer Price represents:

- (a) a premium of approximately 1,300.0% to the audited net asset value per Share as at 31 December 2013;
- (b) a discount of approximately 6.7% to the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on the last trading day immediately prior to the date of the Subscription Agreement;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (c) a premium of approximately 16.7% to the average closing price of HK\$0.144 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement;
- (d) a premium of approximately 25.4% to the average closing price of HK\$0.134 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreement;
- (e) a premium of approximately 35.5% over the average closing price of HK\$0.124 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to the date of the Subscription Agreement;
- (f) a premium of approximately 52.7% to the average closing price of HK\$0.110 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days immediately prior to the date of the Subscription Agreement; and
- (g) a discount of approximately 6.7% to the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Offer Price was determined and negotiated on an arm's length basis between the parties to the Subscription Agreement with reference to the recent trading prices of the Shares as quoted on the Stock Exchange. The Directors (including the independent non-executive Directors) consider that the Subscription Agreement was entered into under normal commercial terms following arm's length negotiations between the Company and the Offeror and that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The completion of Share Purchase is expected to take place contemporaneously with completion of the Share Subscription. On Completion, the Offeror and the parties acting in concert with it will own in aggregate 1,626,713,121 Shares, representing approximately 52.79% of the enlarged issued share capital of the Company as at Completion (assuming that the Subscription Shares are issued and none of the Options and the Warrants have been exercised at or prior to Completion). Upon Completion and pursuant to Rule 26.1 of the Takeovers Code, CCB International will, on behalf of the Offeror, make an unconditional mandatory cash offer to acquire all the

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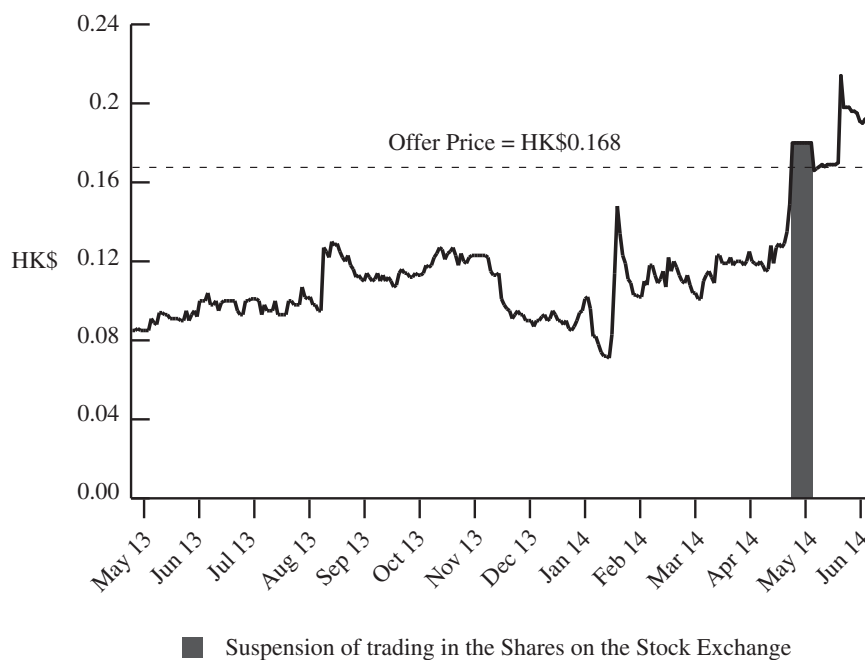
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Disinterested Shares, and to cancel all the Options. We are of the view that the Offer Price is the same for (i) the Share Subscription; (ii) the Share Purchase; and (iii) the Offers, and therefore we consider the terms offered by the Offeror to the Company and the Vendors in Share Subscription and Share Purchase will eventually be extended to the Independent Shareholders with same terms through the Offers. As a result, we consider the terms of the Transaction are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

### 3. Review on historical price performance of the Shares

As the Company is a listed company, price of the Share should reflect the prevailing market assessment of its fair value. Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange from 26 April 2013, being the twelve-month period leading up to 25 April 2014, being the last trading day for the Shares prior to the suspension of trading of the Shares pending publication of the Announcement (the “Last Trading Day”) (both dates inclusive) (the “Pre-Announcement Period”) and from 9 May 2014, being the first day of trading in the Shares after the publication of the Announcement, to the Latest Practicable Date (both dates inclusive) (the “Post-Announcement Period”, collectively known as the “Review Period”):



Source: website of the Stock Exchange

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Pre-Announcement Period*

The closing prices of the Shares were below the Offer Price of HK\$0.168 consistently until 25 April 2014, in which the share price rose by 20.8% to HK\$0.18 on a single day before suspension of trading. Such rise in share price might reflect purely a speculation on the Announcement, or might be due to the speculation of the prospects of the Company. The highest and lowest closing prices of the Shares during the Pre-Announcement Period were HK\$0.18 per Share on 25 April 2014 and HK\$0.071 per Share on 15 January 2014, respectively. The Offer Price therefore represents a discount of approximately 6.7% on the highest closing price of the Shares and a premium of approximately 136.6% over the lowest closing price of the Shares during the Pre-Announcement Period.

### *Post-Announcement Period*

Trading in the Shares on the Stock Exchange was resumed on 9 May 2014. During the Post-Announcement Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.214 and HK\$0.166, respectively. The Offer Price represents a discount of approximately 21.5% to the aforesaid highest closing price of HK\$0.214 and a premium of approximately 1.2% over the aforesaid lowest closing price of HK\$0.166. We also noted that besides the Announcement, the Company had not published other material announcements during the relevant time. Hence, we consider the movements of the price of the Shares during the Post-Announcement Period probably reflected the market reaction to the introduction of a new controlling shareholder and the Offers. After taking into account the historical price performance of the Shares and in the view that (i) it is generally common to have an immediate positive reaction on the share prices of listed companies upon announcement of any change in control which may attract speculation on the prospect of the relevant companies; (ii) the share prices will normally be affected by, among others, general economic environment and other market factors in the volatile stock market in Hong Kong.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4. Review of trading volume of Shares

The following table sets out the trading volume of the Shares during the Review Period:

Month/period	Total trading volume for the month/period (Number of Shares)	Average daily trading volume for the month/period (Number of Shares) <i>(Note 1)</i>	Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date	Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date <i>(Note 2)</i>
<b>2013</b>				
26-30 April	275,000	91,667	0.003719%	0.006303%
May	9,270,477	441,451	0.017908%	0.030353%
June	13,300,000	700,000	0.028396%	0.048130%
July	2,662,500	121,023	0.004909%	0.008321%
August	108,707,500	5,176,548	0.209993%	0.355925%
September	62,270,000	3,113,500	0.126303%	0.214076%
October	21,339,443	1,016,164	0.041222%	0.069869%
November	31,510,000	1,500,476	0.060869%	0.103169%
December	33,213,300	1,660,665	0.067367%	0.114183%
<b>2014</b>				
January	537,848,155	25,611,817	1.038977%	1.760998%
February	160,837,000	8,465,105	0.343398%	0.582037%
March	79,995,000	3,809,286	0.154529%	0.261916%
1 April – Last Trading Day	204,483,000	12,028,412	0.487948%	0.827041%
9 May – 30 May	846,705,622	52,919,101	2.146732%	3.638572%
3 June – Latest Practicable Date	198,165,000	24,770,625	1.004853%	1.703160%

*Source: Website of the Stock Exchange*

*Notes:*

- Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
- Based on 1,454,391,879 Shares held by public Shareholders as at the Latest Practicable Date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As shown in the chart above, prior to the publication of the Announcement on 8 May 2014, the average daily trading volume of the Shares in each month ranged from 91,667 Shares in 26-30 April 2013 to 25,611,817 Shares in January 2014, representing less than approximately 0.004% and 1.039%, respectively, of the total number of Shares in issue as at the Latest Practicable Date and approximately 0.007% and 1.761%, respectively, of the total number of Shares held by public Shareholders as at the Latest Practicable Date. The comparatively higher trading volume of the Shares in May 2014 was due to the release of the Announcement dated 8 May 2014. The average daily trading volume of Shares traded from 9 May 2014 to 30 May 2014 represented approximately 2.147% of the total number of Shares in issue as at the Latest Practicable Date and approximately 3.639% of the total number of Shares held by public Shareholders as at the Latest Practicable Date. On this basis, we consider the liquidity of the Shares during the Review Period was generally low. We are of the view that given the liquidity and trading volume of Shares is relatively low before the Announcement, it will be difficult for the Group to raise fund through other methods in the capital market. As discussed with the management of the Company, the Transaction would enable the Company to raise a significant amount of capital at a relatively low cost (in the context of the absence of the underwriting commission charge under rights issue/open offer), which will be in the interest of the Company and the Independent Shareholders as a whole.

### **5. Comparison with Comparable Companies**

In our assessment, we have considered the price-to-earnings (“P/E”) ratio, price-to-book (“P/B”) ratio and price-to-sales (“P/S”) ratio, which are commonly used benchmarks in valuing a company engaged in business of research, design, development and sale of consumer electronic devices. Given the Group recorded net loss historically, we consider the P/E ratio of the Group is not representative and hence, should not be evaluated against the P/E ratio of the Comparable Companies. Furthermore, as discussed in section headed “Information and historical financial performance of the Group” above, the revenue of the Group had been decreasing for the last three years ended 31 December 2013 and relatively not stable after launching new products, we consider the P/S ratio of the Group is also not representative and hence, should not be evaluated against the P/S ratio of the Comparable Companies.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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P/B ratio of the Company implied by the price of HK\$0.168 per Subscription Share (the “Implied P/B”) is approximately 5.33 times. In particular, based on the price of HK\$0.168 per Subscription Share and the total number of issued Shares of 2,465,100,000 as at the Latest Practicable Date, the Company is valued at approximately HK\$414.1 million. The book value was estimated based on the sum of (i) the audited equity attributable to owners of the Company as at 31 December 2013 of approximately HK\$13.7 million; and (ii) the fund raised after expense by the Open Offer in January 2014 of approximately HK\$64.0 million. On the Last Trading Day and as at the Latest Practicable Date, the market capitalisation of the Company are both approximately HK\$443.7 million.

In assessing the fairness and reasonableness of the Share Subscription, we have attempted to compare the Implied P/B ratio with comparable companies listed on the Stock Exchange and engaged in the same or similar business with the Company. However, based on such criteria, we have not identified any comparable companies with the same or similar business as the Company, which is very unique in the market. However, we consider the business model of research, design, development and sale of DSP-based consumer electronic devices/platforms is similar to that of sale, design and manufacture of semiconductor parts. In general, both of the businesses involve design and production of electronic products. Therefore, we are of the view that companies engaged in sale, design and manufacture of semiconductor parts would be comparable to the Group.

The Group recorded mainly its revenue from research, design, development and sale of DSP-based consumer electronic devices/platforms for the three years ended 31 December 2013. In the view that revenue from research, design, development and sale of DSP-based consumer electronic devices/platforms was the primary business of the Group in the last three financial years of the Group, as well as that the Offeror intends to continue the Company’s current business operations, we have identified comparable companies which (i) are listed on the main board of the Stock Exchange; (ii) are principally engaged in and generated majority, which accounted for over 50%, of revenue from the sale, design and manufacture of semiconductor parts (comparable to the research, design, development and sale of DSP-based consumer electronic devices/platforms business of the Group as mentioned above) in their respective latest financial year; and (iii) have market capitalisation ranged from HK\$200 million to HK\$800 million as at the Latest Practicable Date, having taken into account the market capitalisation of the Company as at the Last Trading Day and as at the Latest Practicable Date respectively (the “Comparable Companies”). The

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Comparable Companies have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. The following table sets out the details of the Comparable Companies:

**Table 1 – Comparable Companies Analysis on P/B**

Company name	Ticker	P/B (x) <i>(Note 1)</i>	Market capitalisation as at the Latest Practicable Date <i>(HK\$ million)</i> <i>(Note 2)</i>
QPL International	243 HK	3.23	246
Sunlink International	2336 HK	4.74	741
Pacmos Tech Holdings	1010 HK	2.01	353
	Maximum	4.74	741
	Minimum	2.01	246
	Average	3.33	N/A
The Implied P/B ratio <i>(Note 3)</i>	1822 HK	5.33	444

*Source: Bloomberg and the website of the Stock Exchange*

*Notes:*

1. Unless as otherwise specified, the P/B ratios of the Comparable Companies are calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date divided by the equity attributable to owners of the respective Comparable Companies as extracted from their respective latest published annual or interim reports.
2. Market capitalisation of the Comparable Companies are calculated based on their respective closing prices as at the Latest Practicable Date and the total number of issued shares as extracted from their respective latest published annual or interim reports.
3. The Implied P/B ratio is calculated based on the price of HK\$0.168 per Subscription Share and the total number of issued Shares of 2,465,100,000 as at the Latest Practicable Date divided by the sum of (i) the audited equity attributable to owners of the Company as at 31 December 2013 of approximately HK\$13.7 million; and (ii) the fund raised after expense by the Open Offer in January 2014 of approximately HK\$64.0 million.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated in the table above, the P/B ratios of the Comparable Companies ranged from 2.01 times to 4.74 times (the “P/B Range”) with an average of 3.33 times (the “Average P/B”). The Implied P/B ratio of 5.33 times is exceeding the high-end of P/B Range and higher than Average P/B. In this regard, we consider the Offer Price is fair and reasonable to the Independent Shareholders.

### 6. Dilution effect on the shareholding interests of the existing public Shareholders

The following table illustrates the shareholding structure of the Company as at the Latest Practicable Date and on Completion (assuming that there is no other change to the enlarged issued share capital of the Company up to Completion):

Shareholder	As at the		Immediately upon		Immediately upon	
	Latest Practicable Date		Completion (assuming that		Completion (assuming that	
	<i>Number of</i>	<i>% of issued</i>	the Subscription Shares		the Subscription Shares are	
	<i>Shares</i>	<i>share capital</i>	are issued and none of the		issued and all the Options	
			Options and the Warrants		and the Warrants have been	
			have been exercised at		exercised at or prior to	
			or prior to Completion)		Completion) (Notes 1 and 2)	
	<i>Number of</i>	<i>% of issued</i>	<i>Number of</i>	<i>% of issued</i>	<i>Number of</i>	<i>% of issued</i>
	<i>Shares</i>	<i>share capital</i>	<i>Shares</i>	<i>share capital</i>	<i>Shares</i>	<i>share capital</i>
The Offeror and parties acting in concert with it	–	–	1,626,713,121	52.79	1,626,713,121	49.25
The First Vendor	424,832,122	17.23	–	–	–	–
The Second Vendor	177,634,699	7.21	–	–	–	–
The Third Vendor	264,000,000	10.71	–	–	120,053,571	3.63
The Fourth Vendor	143,971,300	5.84	–	–	–	–
Mr. Lee Rabi (a Director)	270,000	0.01	270,000	0.01	270,000	0.01
Other public Shareholders	1,454,391,879	59.00	1,454,391,879	47.20	1,555,911,416	47.11
<b>Total</b>	<b>2,465,100,000</b>	<b>100.00</b>	<b>3,081,375,000</b>	<b>100.00</b>	<b>3,302,948,108</b>	<b>100.00</b>

*Note:*

- This is for illustration purpose only as the Third Vendor has undertaken to the Offeror not to (i) accept any general offer made by the Offeror with respect to the Warrants held by it, (ii) exercise the Warrants held by it prior to the closing of any such offer, and (iii) dispose of or transfer the Warrants held by it to any other party prior to the closing of any such offer, pursuant to the Sale and Purchase Agreement.
- This is for illustration purpose only assuming that all the Options (including both the vested and the unvested options) are exercisable and have been exercised at or prior to Completion.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider it is reasonable to also illustrate the change in shareholding structure after the Share Purchase (although no dilution to the existing public Shareholders) because the completion of Share Purchase is expected to take place contemporaneously with completion of the Share Subscription.

We noted that the shareholding interest of the existing public Shareholders is subject to dilution of the aforementioned extents as a result of the Share Subscription. However, with considerations of (i) the loss making position of the Group from FY2011 to the most current FY2013 and that the Group has not been paying dividends to the Shareholders in the latest three financial years we reviewed; (ii) the Transaction would enable the Company to raise a significant amount of capital at a relatively low cost (in the context of the absence of the underwriting commission charge under rights issue/open offer); (iii) the share price increased right after the Announcement under the relatively stagnant general stock market condition, which may indicate a positive response from the market to the Subscription Agreement, Sale and Purchase Agreement and the Offers; and (iv) the terms of the Share Subscription being fair and reasonable so far as the Independent Shareholders are concerned, we consider the possible dilution effect on the shareholding interests of the existing public Shareholders to be justifiable.

### **7. Financial effects of the Transaction**

#### *Effect on net asset value (“NAV”)*

As disclosed in the 2013 Annual Report, the NAV attributable to Shareholders as at 31 December 2013 was approximately HK\$13.7 million. We noted that the NAV of the Group had increased following the Open Offer and upon completion of the Share Subscription, it would further enlarge the asset base with the additional cash of HK\$98.5 million while there would not be any movement in total liabilities. As such, we consider that the Share Subscription will have a positive impact on the NAV.

As for the NAV per Share, prior to the Transaction, there was about 1.12 billion Shares outstanding as at 31 December 2013 as according to the 2013 Annual Report, which would give a NAV of HK\$0.012 per Share (without taking into account the subsequent increase of NAV per share as a result of the Open Offer). As the Share Subscription would increase the total cash level by a larger extent than the increase in total Shares outstanding, we estimate that the NAV per Share would further increase after completion of the Share Subscription.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Effect on earnings*

As disclosed in the 2013 Annual Report, loss for the financial year ended 31 December 2013 was HK\$65.2 million. Except for the expenses relating to the Share Subscription, it is expected that the completion of the Share Subscription will not have any immediate material impact on the earnings of the Company, and given the large amount of cash flowing into the Group, additional interest income should be resulted before utilising the fund raised from the Share Subscription for future investments or business development of the Group. In addition, in view of that the Offeror may deploy the fund raised from the Share Subscription to explore other business opportunities for the Company, the Directors are optimistic on the overall future earnings of the Group upon completion of the Share Subscription. As such, we consider that the Share Subscription will have a positive impact on earnings of the Group.

### *Effect on gearing*

The gearing level of the Group (calculated by dividing total liabilities by total assets) was approximately 91.2% as at 31 December 2013. We noted the gearing level of the Group had improved following the Open Offer as a result of the enlarged asset base. Upon completion of the Share Subscription, the Share Subscription would further enlarge the asset base with the additional cash of HK\$98.5 million while there would not be any movement in total liabilities. As such, we consider that the Share Subscription would reduce the Group's gearing level.

### *Effect on cash/working capital*

As disclosed in the 2013 Annual Report, the Group had current assets of HK\$130.4 million including bank balances and cash of HK\$32.2 million and current liabilities of HK\$129.0 million. The Open Offer had increased the cash level and thus the working capital of the Group. As the Directors confirmed that the net proceeds from the Share Subscription would increase the Group's cash and cash equivalents before the Company utilises them for any future investments or business opportunities, therefore, we are of the view that the Share Subscription will have a positive impact on the cash position and the working capital of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular,

- (i) the Group's revenue were decreasing and the Group has been loss-making for the three financial years since FY2011;
- (ii) the price of HK\$0.168 for each Subscription Share represents a premium in a range of approximately 16.7% to 52.7% over the average closing price for 5, 10, 30 and 90 consecutive trading days immediately prior to the date of the Subscription Agreement;
- (iii) the price of HK\$0.168 for each Subscription Share represents a premium of approximately 1,300.0% over the audited net assets value per Share of approximately HK\$0.012 as at 31 December 2013;
- (iv) Given low liquidity and trading volume of Shares, it will be difficult for the Group to raise fund through other methods in the capital market;
- (v) the Implied P/B ratio exceeds the high-end of P/B Range and higher than the Average P/B;
- (vi) the dilution effect of the Transaction is justifiable; and
- (vii) the Transaction will have an overall positive financial effect on the Group and is in the interests of the Company and the Independent Shareholders as a whole,

we are of the view that the terms of the Transaction were agreed on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Transaction to be proposed at the EGM.

Yours faithfully,

For and on behalf of

**Platinum Securities Company Limited**

**Lenny Li**

*Director and Co-Head of Corporate Finance*



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 1822)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“EGM”) of Perception Digital Holdings Limited (the “**Company**”) will be held at Level 20, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong on 2 July 2014 at 9:00 a.m., for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as resolution of the Company:

#### ORDINARY RESOLUTIONS

“**THAT:**

- (a) the subscription agreement dated 26 April 2014 entered into between the Company and Nat-Ace Pharmaceutical Ltd. 邦強醫藥有限公司 (the “**Offeror**”) in relation to the subscription of 616,275,000 ordinary shares of HK\$0.01 each in the share capital of the Company (the “**Subscription Shares**”, and each a “**Subscription Share**”) at the price of HK\$0.168 per Subscription Share (“**Subscription Agreement**”) (a copy of the Subscription Agreement has been tabled at the meeting marked “A” and signed by the chairman of the meeting for identification purpose) be and is hereby approved, ratified and confirmed;
- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in the Subscription Shares, the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate (the “**Specific Mandate**”) to allot, issue, credited as fully paid, the Subscription Shares to the Offeror pursuant to the Subscription Agreement, provided that the Specific Mandate shall be in addition to and shall not prejudice nor revoke the existing general mandate granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 29 May 2014 or such other general or specific mandate(s) which may from time to time be granted to the Directors prior to or after the passing of this resolution; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (c) all other transactions contemplated under the Subscription Agreement be and are hereby approved and any one Director be and is authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he considers necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Subscription Agreement, the allotment and issue of the Subscription Shares and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Director, in the interests of the Company and its shareholders as a whole.”

By order of the Board  
**Perceptual Digital Holdings Limited**  
幻音數碼控股有限公司  
**Mung Wai Ming**  
*Chairman*

Hong Kong, 16 June 2014

*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

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjourned meeting should you so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting.
4. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

*As at the date of this notice, the board of Directors comprises (i) three executive Directors, namely Mr. Mung Wai Ming, Ms. Liu Yee Nee and Mr. Lee Rabi; and (ii) three independent non-executive Directors, namely Mr. Ng Wai Hung, Mr. William Keith Jacobsen and Ms. Zhou Jing.*