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China Digital Licensing (Group) Limited
中國數碼版權(集團)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

MAJOR AND CONNECTED TRANSACTION

**ACQUISITION OF APPROXIMATELY 21.57%
SHAREHOLDING INTEREST IN A COPYRIGHT
MANAGEMENT AND DIGITAL LICENSING BUSINESS**

AND

RESUMPTION OF TRADING

Financial adviser to the Company



INCU Corporate Finance Limited

THE AGREEMENT

Pursuant to the Agreement dated 8 October 2009 (as supplemented by a supplemental agreement dated 15 October 2009), the Purchaser, a wholly owned subsidiary of the Company, agreed to purchase and the Vendor agreed to sell, the Sale Shares, which represents approximately 21.57% of the total issued share capital of Far Glory, for a total consideration of HK\$32,355,000.

Upon completion of the Acquisition, the Purchaser will hold indirectly 51% shareholding interest in Far Glory which in turn indirectly interested in 50% shareholding interest in Beijing e-License and that Far Glory will become a subsidiary of the Company with the accounts of the Target Group being consolidated with that of the Group.

The Transactions (the aggregate of transactions under the Agreement and the Former Agreement) constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. Since Mr. Hsu Tung Chi, being the substantial shareholder of the Vendor, is the younger brother of Mr. Hsu Tung Sheng, an executive Director, the Acquisition therefore also constitutes a connected transaction on the part of the Company and is subject to the reporting, announcement and the Independent Shareholders' approval requirements by way of poll under Chapter 20 of the GEM Listing Rules.

GENERAL

A circular will be despatched as soon as practicable within 21 days after publication of this announcement to the Shareholders containing, among other things, (i) details of the Acquisition; (ii) the accountants' reports of the Target Group; (iii) a letter from the Independent Board Committee containing its advice in respect of the Acquisition; (iv) a letter from an independent financial adviser to the Independent Board Committee and Independent Shareholders containing its advice in respect of the Acquisition; and (v) a notice convening the EGM, in compliance with the GEM Listing Rules.

RESUMPTION OF TRADING

Trading of the Shares has been suspended with effect from 9:30 a.m. on 9 October 2009 pending the release of this announcement. Trading of the Shares will resume at 9:30 a.m. on 16 October 2009.

Reference is made to the announcements of the Company dated 6 May 2008 and 18 August 2009 and the circulars of the Company dated 30 May 2008 and 7 September 2009 respectively in relation to, among other matters, the investment made by the Purchaser in Far Glory. As at the date of this announcement, the Purchaser is interested in approximately 29.43% shareholding in Far Glory.

As disclosed in the announcement and circular of the Company dated 6 May 2008 and 30 May 2008 respectively, the Purchaser has entered into agreement with the Guarantor in relation to the acquisition of 12% equity interest in Far Glory at a maximum consideration of HK\$45,000,000 (subject to adjustment), the acquisition was completed on 20 June 2008 and the consideration was settled by the Company: (i) cash of HK\$5,000,000, (ii) convertible bonds of HK\$22,000,000, of which HK\$4,000,000 was held under escrow and will be released upon fulfillment of the Former Profit Guarantee; and (iii) earn out convertible bonds of HK\$18,000,000, which will be issued upon fulfillment of the Earn Out Profit. As at the date of this announcement, convertible bonds of HK\$12,000,000 remain outstanding, of which HK\$4,000,000 was held under escrow and will be released upon fulfillment of the Former Profit Guarantee and earn out convertible bonds have not yet been issued to the Guarantor.

Pursuant to the Agreement dated 8 October 2009 (as supplemented by a supplemental agreement dated 15 October 2009), the Purchaser, a wholly owned subsidiary of the Company, agreed to purchase and the Vendor agreed to sell the Sale Shares for a total consideration of HK\$32,355,000.

THE AGREEMENT

Date: 8 October 2009 (after trading hours) (as supplemented by a supplemental agreement dated 15 October 2009)

Parties:

Purchaser: the Purchaser, a wholly owned subsidiary of the Company

Vendor: Daily Technology Company Limited

Guarantor: Mr. Hsu Tung Chi

Daily Technology Company Limited is a company incorporated in Samoa and is beneficially owned as to 98% by Mr. Hsu Tung Chi and 2% by a third party independent of the Company and its connected persons (as defined in the GEM Listing Rules). Mr. Hsu Tung Chi, being the younger brother of Mr. Hsu Tung Sheng, an executive Director, is a connected person of the Company and therefore the Acquisition constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules.

Assets to be acquired

The Sale Shares, representing approximately 21.57% of the total issued share capital of Far Glory.

Far Glory, which is owned as to 29.43%, 28.37%, 1.50% and 19.91% by the Purchaser, the Vendor, Mr. Hsu Tung Sheng and Mr. Lau Kim Hung, Jack (“**Mr. Lau**”) respectively and the balance of 20.79% by two parties who are all third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules).

Mr. Lau is a substantial Shareholder. Mr. Hsu Tung Sheng is an executive Director and Mr. Hsu Tung Chi, the substantial shareholder of the Vendor, is the younger brother of Mr. Hsu Tung Sheng. Mr. Lau, the Vendor and Mr. Hsu Tung Sheng are interested in 19.91%, 28.37% and 1.50% shareholdings of Far Glory respectively. To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, save for aforesaid, the two other shareholders of Far Glory and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules).

Consideration

The Consideration for the Sale Shares is HK\$32,355,000, which shall be payable in the following manner:

- (a) as to HK\$5,452,000 payable by the Purchaser procuring the Company to allot and issue the Consideration Shares at the Issue Price upon Completion; and
- (b) as to HK\$26,903,000 payable by the Purchaser procuring the Company to issue the Convertible Bonds upon Completion.

The Consideration was agreed between the Vendor and the Purchaser after arm's length negotiations after considering: (i) the basis of consideration under the Former Agreement, after discussion with the Vendor and the management of the Target Group, the management of the Target Group is of the view that the business of the Target Group will develop according to its business plan and the development progress of the Target Group follows the initial business development plan as previous discussion with Mr. Yuan Sheng Jun in determining the basis of consideration of the Former Agreement, as a result, the Vendor and the Purchaser agreed to use the same basis of consideration under the Former Agreement, such as (a) Former Profit Guarantee; (b) price earning ratios; and (c) Issue Price, etc.; (ii) the business development and prospect of the Target Group in the medium to long term; and (iii) the current price earning multiples of companies listed on the Stock Exchange engaging in information technology business and entertainment related business similar to the Target Group ("**Comparables**") ranging from about 0.21 to about 257.50 times.

The Consideration represents 10 price earning multiples (which is the lower range compared to the price earning multiples of the Comparables) of the Former Profit Guarantee and equity interest to be acquired in Far Glory (i.e. $\text{HK\$15,000,000} \times 10 \times 21.57\% = \text{HK\$32,355,000}$). The 10 price earning multiples is in the low-end of such range and represents that the business of the Target Group is in developing stage as compared to the Comparables.

The Directors (excluding the independent non-executive Directors who would give their views on the terms of the Acquisition after having been advised by the independent financial adviser) consider that the Consideration is fair and reasonable and the terms and conditions of the Acquisition are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

- (a) all necessary consents and approvals required to be obtained on the part of the Vendor in respect of the Acquisition having been obtained;
- (b) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the Acquisition having been obtained;

- (c) the warranties provided by the Vendor under the Agreement remaining true and accurate in all respects;
- (d) the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares; and
- (e) the passing by the Independent Shareholders who are entitled to vote and not required to abstain from voting under the GEM Listing Rules at the EGM to be convened and held of an ordinary resolution to approve the Agreement and the transaction contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares, issue of the Convertible Bonds and allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds to the Vendor (or its nominee).

Condition (c) above is waivable by the Purchaser under the Agreement. The Purchaser has no current intention to waive such condition as at the date of this announcement. Save for condition (c), the other conditions are incapable of being waived.

Completion

Completion shall take place at 4:00 p.m. within three Business Days after all the conditions of the Agreement have been fulfilled or waived or such later date as may be agreed between the Vendor and the Purchaser.

As at the date of this announcement, the Purchaser is beneficially interested in approximately 29.43% of the total issued share capital of Far Glory.

Upon Completion, the Company shall allot and issue to the Vendor the Consideration Shares and upon which the Company will be indirectly interested in 51% equity interests in Far Glory and that Far Glory will become a subsidiary of the Company with the accounts of the Target Group being consolidated with that of the Group.

Long-stop date

If all of the conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before 31 December 2009 (or such later date as the Purchaser and the Vendor may agree), the Agreement shall cease and terminate and neither party shall have any obligations towards each other.

CONSIDERATION SHARES

The 58,000,000 new Consideration Shares will be allotted and issued at an Issue Price of approximately HK\$0.094 per Consideration Share, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Issue Price represents:

- (i) a discount of approximately 27.69% to the closing price of HK\$0.13 per Share as quoted on the Stock Exchange on 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement; and
- (ii) a discount of approximately 27.69% to the average of the closing prices of HK\$0.13 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement.

The Consideration Shares represent approximately 3.68% of the existing issued share capital of the Company and approximately 3.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Vendor undertakes to and covenants with the Purchaser that it will not, within the period commencing on the date of Completion and ending on the date falling 90 days after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of more than 29,000,000 Consideration Shares or any interests therein or grant any options or rights in respect of more than 29,000,000 Consideration Shares without prior approval from the Purchaser.

The Issue Price was determined by the Board after taking into consideration of various factors including, the current level of the Share price, the issue price of the consideration shares of the Former Agreement as the management of the Target Group is of the view that the current business development progress of the Target Group follows the initial business development plan as when the Former Agreement was reached and the Directors (excluding the independent non-executive Directors) consider that the Issue Price is fair and reasonable.

The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought at the EGM and will be allotted and issued on the date of Completion.

Application for listing

Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

THE CONVERTIBLE BONDS

To satisfy part of the Consideration, the Company will issue to the Vendor (or its nominees) the Convertible Bonds in the principal amount of HK\$26,903,000.

The following is a summary of the principal terms of the Convertible Bonds:

Aggregate principal amount: HK\$26,903,000

Conversion Price: HK\$0.094 per Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues. Such adjustments will be certified by an independent approved merchant bank or the auditors of the Company for the then time being.

The Conversion Price of HK\$0.094 per Conversion Share represents:

- (i) a discount of approximately 27.69% to the closing price of HK\$0.13 per Share as quoted on the Stock Exchange on 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement;
- (ii) a discount of approximately 27.69% to the average of the closing prices of HK\$0.13 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement;
- (iii) a discount of approximately 27.86% to the average of the closing prices of HK\$0.1303 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement; and
- (iv) a premium of approximately 2.76 times over the net asset value per Share of approximately HK\$0.025 based on the audited consolidated financial statements of the Group as at 31 December 2008 and the total number of issued shares of the Company of 1,575,604,867 as at the date of this announcement.

The Conversion Price was determined after arm's length negotiations among the Purchaser, the Vendor and the Company with reference to the Issue Price.

Interest rate: Zero coupon.

Maturity Date:	The fifth anniversary from the date of issue of the Convertible Bonds.
Redemption:	<p>Unless previously converted or lapsed or redeemed by the Company, the Company will redeem the Convertible Bonds on the Maturity Date.</p> <p>The Company may at any time before the Maturity Date by serving at least seven days' prior written notice on the Bondholder(s) with the total amount proposed to be redeemed from the Bondholder(s) specified therein, redeem the Convertible Bonds (in whole or in part) at par.</p> <p>Any amount of the Bond(s) which remains outstanding on the Maturity Date shall be redeemed at its then outstanding principal amount.</p>
Transferability:	The Bondholder(s) may assign or transfer the Convertible Bonds to Independent Third Parties in whole or in part in integral multiples of HK\$1,000,000 or if the outstanding principal amount of the Convertible Bonds is less than HK\$1,000,000, the whole but not in part of the Convertible Bonds may be assigned or transferred.
Conversion:	<p>Under the terms of the Convertible Bonds, the aggregate shareholdings of the Vendor and its concert parties upon any conversion of the Convertible Bonds or any other previous convertible securities must not exceed 29.99% or more of the issued share capital of the Company on the date of the conversion and that any conversion will not trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor. The Vendor shall by notice inform the Company and request to convert the Convertible Bonds and the Company will not issue the Conversion Shares to the Vendor if the aggregate shareholding of the Vendor and its concert parties upon any conversion of the Convertible Bonds or any other previous convertible securities exceeds 29.99% or more of the issued share capital of the Company.</p> <p>Subject to above, the Vendor will have the right to convert the whole or part of the principal amount of the Convertible Bonds into Shares at any time and from time to time, from the date of issue of the Convertible Bonds in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion.</p>
Conversion period:	Bondholder(s) shall have the right to convert, up to and including the Maturity Date as defined above, the whole or any part (in an amount or integral multiple of HK\$1,000,000) of the principal amount of the Convertible Bonds into Conversion Shares.

Conversion Shares:	Upon full conversion of the Convertible Bonds at the Conversion Price, an aggregate of 286,202,127 Conversion Shares will be issued by the Company (representing approximately 18.16% of the existing issued share capital of the Company, approximately 17.52% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and approximately 14.91% of the issued share capital of the Company as enlarged by the allotment and issue of both the Consideration Shares and the Conversion Shares, assuming full conversion of the Convertible Bonds and the Conversion Shares were to be issued at the Conversion Price. However, under the terms of the Convertible Bonds, the aggregate shareholdings of the Vendor and its concert parties on any conversion of the Convertible Bonds must not exceed 29.99% or more of the issued share capital of the Company on the date of the conversion and that any conversion will not trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor.
Voting:	A Bondholder will not be entitled to receive notice of, attend or vote, at any general meeting of the Company by reason only of it being a Bondholder.
Listing:	No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.
Ranking:	The Convertible Bonds will rank pari passu with all other present and future unsecured and un-subordinated obligations of the Company.

The Conversion Shares to be issued as a result of the exercise of the conversion rights attaching to the Convertible Bonds will rank pari passu in all respects with all other Shares in issue at the date on which the conversion rights attached to the Convertible Bonds are exercised. The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the EGM and will be allotted and issued upon exercise by the Vendor.

An application will be made by the Company for the listing of and permission to deal in the Conversion Shares to be issued. The Company shall inform the Stock Exchange in the event that there is any dealing in the Convertible Bonds by any connected person of the Company.

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the date of this announcement and before Completion; (ii) immediately after Completion and the allotment and issue of the Consideration Shares; (iii) immediately after Completion and the allotment and issue of the Consideration Shares and upon conversion of the Convertible Bonds immediately before triggering a mandatory general offer obligation under the present provisions of the Code; and (iv) immediately

after Completion and the allotment and issue of the Consideration Shares, and full conversion of the Convertible Bonds and full conversion of HK\$12 million convertible bonds at conversion price of HK\$0.18 per Share and full conversion of HK\$18 million earn out convertible bonds at conversion price of HK\$0.18 per Share:

	As at the date of this announcement and before Completion		Immediately after Completion and the allotment and issue of the Consideration Shares		Immediately after Completion and the allotment and issue of the Consideration Shares and upon conversion of the Convertible Bonds immediately before triggering a mandatory general offer obligation under the present provisions of the Code (Note 4)		Immediately after Completion and the allotment and issue of the Consideration Shares, full conversion of the Convertible Bonds and full conversion of HK\$12 million convertible bond at conversion price of HK\$0.18 per Share and full conversion of HK\$18 million earn out convertible bonds at conversion price of HK\$0.18 per Share (Note 5)	
Shareholders	Number of Shares	Appro. %	Number of Shares	Appro. %	Number of Shares	Appro. %	Number of Shares	Appro. %
Manciple Enterprises Limited and its associates (Note 1)	405,198,238	25.72%	405,198,238	24.80%	405,198,238	24.77%	405,198,238	19.42%
The Vendor and its associate (Note 2)	25,000,000	1.58%	83,000,000	5.08%	85,500,000	5.22%	535,868,793	25.68%
Directors (Note 3)								
Pang Hong Tao	21,500,000	1.36%	21,500,000	1.32%	21,500,000	1.31%	21,500,000	1.03%
Ma She Shing, Albert	9,870,000	0.63%	9,870,000	0.60%	9,870,000	0.60%	9,870,000	0.47%
Au Shui Ming Anna	35,500,000	2.25%	35,500,000	2.17%	35,500,000	2.17%	35,500,000	1.70%
Subtotal	66,870,000	4.24%	66,870,000	4.09%	66,870,000	4.08%	66,870,000	3.20%
Public	1,078,536,629	68.46%	1,078,536,629	66.03%	1,078,536,629	65.93%	1,078,536,629	51.70%
Total:	<u>1,575,604,867</u>	<u>100.00%</u>	<u>1,633,604,867</u>	<u>100.00%</u>	<u>1,636,104,867</u>	<u>100.00%</u>	<u>2,086,473,660</u>	<u>100.00%</u>

Notes:

1. Manciple Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau.
2. Mr. Hsu Tung Sheng, an executive Director, being the elder brother of Mr. Hsu Tung Chi, is interested in 13,000,000 Shares.

3. Mr. Pang Hong Tao and Ms. Au Shui Ming, Anna are executive Directors. Mr. Ma She Shing, Albert is a non-executive Director.
4. The shareholding structure is prepared for illustration purpose only and assuming (i) after allotment and issue of the Consideration Shares; and (ii) after conversion of the Convertible Bonds, with the aggregate shareholdings of the Vendor and its concert parties upon issue of the Conversion Shares does not exceed 29.99% or more of the issued share capital of the Company on the date of the Conversion nor will it trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor.
5. The shareholding structure is prepared for illustration purpose only, yet, the Company will not issue the Conversion Shares to the Vendor if the aggregate shareholding of the Vendor and its concert parties upon any conversion of the Convertible Bonds exceeds 29.99% or more of the issue share capital of the Company.
6. Pursuant to a placing agreement entered into between the Company and the placing agent dated 8 September 2009, the Company may place 273,000,000 Shares to six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules) at a price of HK\$0.105 per Placing Share. Such placing has yet to be completed and the long stop date of such placing will be on or before 31 October 2009.

INFORMATION ON THE TARGET GROUP

The Target Group are currently engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as online entertainment and media related items) through Beijing e-License and distribution of other entertainment related business in the PRC through BLTC. BLTC is 100% owned by the Target Group and Beijing e-License is 50% beneficially owned by the Target Group and the rest of the shareholding interest is indirectly owned by e-License Inc. (Japan). e-License Inc. (Japan) is a pioneer in the development of copyright management and digital licensing technologies in Japan and is one of the leading Japan based copyright management companies specialized in the digital media industry to provide international copyright management solution and consultancy services.

According to the audited financial statements of the Target Group for the period commencing from 8 June 2007 (the date of incorporation) to 31 December 2008, there was no turnover, and the net loss before and after taxation and extraordinary items was approximately HK\$107,000. As at 31 December 2008, the total assets and net asset value of the Target Group were approximately HK\$25,318,000 and HK\$25,271,000 respectively.

According to the unaudited financial statements of the Target Group for the six months ended 30 June 2009, there was no turnover, and the net loss before and after taxation and extraordinary items was approximately HK\$188,000. As at 30 June 2009, the total assets and net asset value of the Target Group were approximately HK\$25,108,000 and HK\$25,083,000 respectively.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the development and provision of on-line education programs, provide languages and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau. The Group also invests in copyright management and digital licensing business through investment in Far Glory.

With the increasing emphasis on anti-privacy placed by the PRC Government, the growing popularity of Internet and mobile for entertainment purpose and the introduction of 3G in the PRC, the Directors are of the view that the provision of legal and copyright protected items in particular, the on-line entertainment and media related items, are in high demand in telecommunication industry, music and entertainment industry as well as media industry in the PRC and the development of digital licensing business in the areas of Internet and telecommunications are of high profitability potential in the PRC.

Although the business development of the Target Group has been delayed in 2008 as the negotiations with the telecommunication operators have taken longer time than expected due to restructuring of the telecommunication industry and the resulted changes in personnel in 2008 and the negotiations with other potential business partners have also been delayed mainly due to the global financial tsunami in the second half of 2008 and their respective business plans have been hold back due to negative changes in the global business environment, there has been some major business development and updates since its incorporation to the date of this announcement, including:

- (i) the Target Group has entered into an agreement with a PRC Government authority which is the sole governmental authority in the PRC responsible for management of the copyrights of audio and video items in the PRC, in April 2009 in relation to the co-operation in the area of provision of copyright management solution, the digital content licensing solution and the distribution of copyright protected items (such as online entertainment and media related items) services;
- (ii) the Target Group has entered into an agreement with one of the telecommunication operators in the PRC for the distribution of copyright protected music and music video contents to its 3G mobile subscribers; such service has become effective and has commenced operation in September 2009; in addition, the Target Group is in active negotiation with other telecommunication operators in the PRC for the distribution of copyright protected contents to its mobile subscribers;
- (iii) the Target Group has entered into agreements with one of the leading global music companies in July 2009 for the provision of copyright protected music and music video contents to the two telecommunication operators in the PRC; apart from this, it is also in final negotiation with the music company for the provision of copyright management solution service;
- (iv) the Target Group has entered into agreements with several top music companies from March to May 2008 for the provision of copyright protected music and music video contents to Internet and mobile users; and
- (v) apart from the above, the Target Group is in negotiation with other major content providers for the provision of copyright management solution service as well as copyright protected contents, including music, drama series, online games, animation and comic contents to Internet and mobile users in the PRC and in the medium to long term, to other digital medium.

In view of the above, the management of the Target Group is optimistic that the Former Profit Guarantee will be achievable.

In light of (i) the above business development of the Target Group, and (ii) the technological support given by e-License Inc. (Japan) to the Target Group on the development of the copyright management and digital content licensing businesses in the PRC, given its expertise in the development of the copyright management and digital licensing technologies in Japan, the Directors believe that the Target Group is well positioned to become the pioneer in the provision of legal copyright protected on-line entertainment and media related items and the related copyright management and digital content licensing solutions in the PRC which will generate significant revenue and profit to the Group in the future. The Directors consider it is the right time to acquire further equity interest in Far Glory in order to consolidate the accounts of the Target Group with that of the Group.

The Directors (excluding the independent non-executive Directors who would give their views on the terms of the Acquisition after having been advised by the independent financial adviser) view that further investment into the Target Group is in the interest of the Group and the Shareholders as a whole in view of its profitability potential in the future.

GEM LISTING RULES IMPLICATIONS

The Transactions (the aggregate of transactions under the Agreement and the Former Agreement) constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. Since Mr. Hsu Tung Chi, being the substantial shareholder of the Vendor is the younger brother of Mr. Hsu Tung Sheng, an executive Director, the Acquisition therefore also constitutes a connected transaction on the part of the Company and is subject to the reporting, announcement and the Independent Shareholders' approval requirements by way of poll under Chapter 20 of the GEM Listing Rules.

Approval of the Independent Shareholders by way of poll is proposed to be sought at the EGM in respect of the Acquisition and the transactions contemplated thereunder.

Mr. Lau, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi and their respective associates shall abstain from voting for the relevant resolution approving the Agreement and the transactions contemplated thereunder at the EGM.

The Independent Board Committee (comprising all the independent non-executive Directors) will be established to advise the Independent Shareholders as to whether the terms of the Acquisition and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares, issue of the Convertible Bonds and allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. An independent financial adviser to advise the Independent Board Committee and the Independent Shareholders will be appointed accordingly.

A circular will be despatched as soon as practicable within 21 days after publication of this announcement to the Shareholders containing, among other things, (i) details of the Acquisition; (ii) the accountants' reports of the Target Group; (iii) a letter from the Independent Board committee containing its advice and recommendation in respect of the Acquisition; (iv) a letter from an independent financial adviser to the Independent Board Committee and Independent Shareholders containing its advice to the Independent Board Committee and Independent Shareholders in respect of the Acquisition (including but not limited to the allotment and issue of the Consideration Shares, issue of the Convertible Bonds and allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds); and (v) a notice convening the EGM, in compliance with the GEM Listing Rules.

RESUMPTION OF TRADING

Trading of the Shares has been suspended with effect from 9:30 a.m. on 9 October 2009 pending the release of this announcement. Trading of the Shares will resume at 9:30 a.m. on 16 October 2009.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“Acquisition”	the proposed acquisition of the Sale Shares on the terms contained in the Agreement
“Agreement”	the conditional agreement dated 8 October 2009 (as supplemented by a supplemental agreement dated 15 October 2009) entered into among the Purchaser, the Vendor and the Guarantor in relation to the Acquisition
“associates”	has the same meaning ascribed to such term under the GEM Listing Rules
“Beijing e-License”	Beijing YiLaiShen Technology Company Limited (北京易來申科技有限公司)
“BLTC”	Beijing LianYiHuiZhong Technology Company Limited (北京聯易匯眾科技有限公司)
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of the Convertible Bond(s)
“Business Day(s)”	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours

“Code”	The Hong Kong Code on Takeovers and Mergers
“Company”	China Digital Licensing (Group) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Consideration”	the consideration for the Acquisition, being HK\$32,355,000
“Consideration Shares”	an aggregate of 58,000,000 Shares to be issued and allotted to the Vendor for the Consideration
“Conversion Price”	HK\$0.094 per Conversion Share, subject to usual anti-dilution adjustments, being the initial conversion price at which the Convertible Bonds may be converted into the Conversion Shares
“Conversion Shares”	the 286,202,127 new Shares (subject to adjustment) to be allotted and issued to the Bondholder(s) upon conversion of the Convertible Bonds
“Convertible Bonds”	the convertible bond(s) in the agreed form in the principal amount of HK\$26,903,000 to be issued by the Company in favour of the Vendor at Completion to satisfy in part the Consideration
“Director(s)”	the director(s) of the Company from time to time
“Earn Out Profit”	earn out profit of at least HK\$25 million being the average of the audited consolidated net profit after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 December 2009 and 31 December 2010
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, among other matters, the Acquisition and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares, issue of the Convertible Bonds and allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds)

“Far Glory”	Far Glory Limited, a company incorporated in the British Virgin Islands
“Former Agreement”	the conditional agreement dated 14 August 2009 entered between the Purchaser as purchaser and Mr. Yuan Sheng Jun as vendor for the sale of 1,000 ordinary shares of Far Glory thereunder which has been completed on 28 September 2009
“Former Profit Guarantee”	the profit guarantee of at least HK\$15 million being the average of the audited consolidated net profit after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 December 2009 and 31 December 2010 given by Mr. Hsu Tung Chi and guaranteed by Mr. Hsu Tung Sheng under the acquisition agreement entered into between among the Company, and Mr. Hsu Tung Chi and Mr. Hsu Tung Sheng dated 5 May 2008, details of which have been disclosed in the circular of the Company dated 30 May 2008
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares, issue of the Convertible Bonds and allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds)
“Independent Shareholders”	Shareholders other than Mr. Lau, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi and their respective associates or others who are interested in the Acquisition at the forthcoming EGM
“Issue Price”	approximately HK\$0.094 per Consideration Share
“PRC”	the People’s Republic of China
“Purchaser”	Cheer Plan Limited, a wholly owned subsidiary of the Company

“Sale Shares”	2,351 ordinary shares of Far Glory, representing approximately 21.57% of the total issued share capital of Far Glory
“Shares”	ordinary shares of HK\$0.05 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Group”	Far Glory and its subsidiaries
“Transactions”	the aggregate of transactions under the Agreement and Former Agreement
“Vendor”	Daily Technology Company Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By order of the Board
China Digital Licensing (Group) Limited
Pang Hong Tao
Chairman

Hong Kong, 15 October 2009

As at the date of this announcement, the executive Directors are Mr. Hsu Tung Sheng, Mr. Pang Hong Tao, and Ms. Au Shui Ming, Anna. The non-executive Director is Mr. Ma She Shing, Albert. The independent non-executive Directors are Mr. Hsu William Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on GEM website on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.chinadigitallic.com.