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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)

### **DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION INVOLVING THE REVISED REVOLVING FACILITY TO BE GRANTED BY THE COMPANY**

**Financial Adviser to the Company**



**INCUB Corporate Finance Limited**

#### **THE REVISED REVOLVING FACILITY TO BE GRANTED BY THE COMPANY**

Reference is made to the announcement of the Company dated 11 February 2010 in relation to the grant by the Company to Far Glory the Original Facility by way of the Loan Agreement of up to a maximum amount of HK\$9.5 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Loan Agreement.

The Board is pleased to announce that on 23 July 2010 (after trading hours), the Company and Far Glory have entered into the Supplemental Agreement, pursuant to which the Company and Far Glory have agreed to revise the Loan Agreement, such that the Original Facility granted by the Company to Far Glory shall, upon the Effective Date, be revised as the Revised Revolving Facility of up to a maximum amount of HK\$40 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Supplemental Agreement for financing the business development and working capital requirements of the Far Glory Group.

As one of the applicable percentage ratios as defined in the GEM Listing Rules exceeds 5% but is less than 25%, the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder constitute a discloseable transaction under Chapter 19 of the GEM Listing Rules. Far Glory is a connected person of the Company under R.20.11(5) of the GEM Listing Rules. The Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder also constitute a continuing connected transaction for the Company which are subject to the reporting and announcement requirements as well as the Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## **GENERAL**

A circular will be despatched as soon as practicable within 15 Business Days after publication of this announcement to the Shareholders (i.e. on or before 13 August 2010) containing, among other things, (i) details of the Loan Agreement (as supplemented by the Supplemental Agreement) and the Revised Revolving Facility; (ii) a letter from the Independent Board Committee containing its advice in respect of the Loan Agreement (as supplemented by the Supplemental Agreement); (iii) a letter from an independent financial adviser to the Independent Board Committee and Independent Shareholders containing its advice in respect of the Loan Agreement (as supplemented by the Supplemental Agreement); and (iv) a notice convening the EGM, in compliance with the GEM Listing Rules.

Reference is made to the announcement of the Company dated 11 February 2010 (the “**Announcement**”) in relation to the grant by the Company to Far Glory the Original Facility by way of the Loan Agreement of up to a maximum amount of HK\$9.5 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Loan Agreement.

The Board is pleased to announce that on 23 July 2010 (after trading hours), the Company and Far Glory have entered into the Supplemental Agreement, pursuant to which the Company and Far Glory have agreed to revise the Loan Agreement, such that the Original Facility granted by the Company to Far Glory shall, upon the Effective Date, be revised as the Revised Revolving Facility of up to a maximum amount of HK\$40 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Supplemental Agreement for financing the business development and working capital requirements of the Far Glory Group.

## THE SUPPLEMENTAL AGREEMENT

Date: 23 July 2010 (after trading hours)

Parties:

Lender: (i) the Company, which holds indirectly 51% equity interest in Far Glory

Borrower: (ii) Far Glory, an indirect non wholly-owned subsidiary of the Company, of which a substantial shareholder of the Company holds 19.91% equity interest. Far Glory is therefore a connected person of the Company

### Terms of the Revised Revolving Facility

- (i) Amount : Up to a maximum amount of HK\$40 million at any time during the term of the Revised Revolving Facility
- (ii) Drawings : Drawings may be made from the date of the Loan Agreement up to the date falling 35 months from the date of the Supplemental Agreement
- (iii) Repayment : Outstanding amount drawn together with all outstanding interest accrued thereon shall be repaid in full in one lump sum on the date falling 36 months from the date of the Supplemental Agreement
- (iv) Term : From the date of the Loan Agreement up to the date falling 36 months from the date of the Supplemental Agreement
- (v) Interest : At one (1) per cent per annum above the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited (currently at 5% per annum), i.e. 6% per annum, which was arrived at after arm's length negotiations between the Company and Far Glory, and reflects the normal commercial rate. The Directors (including the independent non-executive Directors) consider the interest rate to be fair and reasonable

- (vi) Renewable : Subject to the facility amount and the terms and conditions of the Loan Agreement (as supplemented by the Supplemental Agreement), any amount repaid prior to the expiry of the drawings availability period may be redrawn
- (vii) Intended use of proceeds : (i) For the operation and business development of the digital copyright management business and digital content licensing business of the Far Glory Group by way of capital injection or shareholder's loan to subsidiaries and associated companies of Far Glory; and (ii) general working capital of the Far Glory Group

### **Conditions precedent**

The Supplemental Agreement shall only become effective subject to the following conditions having been fulfilled:

- (a) if required, the Shareholders (or where appropriate, the Independent Shareholders) passing at the EGM the necessary resolutions approving the Loan Agreement (as supplemented by this Supplemental Agreement) and the transactions contemplated thereunder;
- (b) all necessary approval, consents, authorisations and licences in relation to the transactions contemplated under the Loan Agreement (as supplemented by the Supplemental Agreement) having been obtained; and
- (c) all representations and warranties made by the Borrower under the Loan Agreement (as supplemented by the Supplemental Agreement) or in connection herewith shall be true and correct with the same effect as though made on and as of Effective Date with reference to the facts and circumstances then subsisting.

### **Information of the Group**

The Group is currently engaged in the provision of digital 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 the Far Glory Group. The Group is also engaged in e-learning business.

### **Information of the Far Glory Group**

Beijing e-License, a 50%-50% joint venture between Far Glory and e-License Inc., has entered into a ten-year full technical collaboration agreement with China Audio-Video Copyright Association (CAVCA) to provide e-License digital copyright management system and services to major service providers of the fixed and wireless networks (i.e. the telecommunication and the Internet) and other digital media service providers in the PRC.

Sky Asia Investments Limited and Beijing LianYiHuiZhong Technology Company Limited (北京聯易匯眾科技有限公司), both being the wholly owned subsidiaries of Far Glory, are principally engaged in the provision of digital content licensing solution and distribution of other entertainment related business in the PRC and have been granted authorizations by major record labels (including avex, AsiaMuse and Mainstream Music, etc.) for provision of music contents.

The Far Glory Group has obtained authorization from the major record label, avex, for the provision of licensed audio entertainment contents to Baidu Internet Portal (百度網站) and two of the major telecommunication operators in the PRC. The Far Glory Group has also obtained authorization from the major record label, Warner/Chappell, for the provision of licensed audio entertainment contents to a major telecommunication operator in the PRC. Same arrangements are also finalized with other major record labels. The Far Glory Group will collaborate with CAVCA to set up a national music and video database and will continue to obtain authorizations from other major record labels for music contents.

### **Reasons for the Revised Revolving Facility**

As disclosed in the Announcement, 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, 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 is of high profitability potential in the PRC.

The Directors are of the view that in light of the growth potential of the Far Glory Group and the difficulty in borrowing external bank loans given the newly startup background of the Far Glory Group, the provision of the Revised Revolving Facility to make available additional funding and flexibility to the Far Glory Group to expand its business in the digital copyright management business is in the interests of the Company and the Shareholders as a whole.

The Directors consider that the increase in principal amount of the loan facility has taken into account the future funding requirements of the Far Glory Group to obtain authorization from the major record labels for the provision of licensed audio entertainment contents to Baidu Internet Portal (百度網站) and the major telecommunication operators in the PRC, which will be one of the key revenue generating factors for the Far Glory Group and the Group as a whole.

The provision of the Revised Revolving Facility to Far Glory will be funded by internal financial resources of the Group. The terms of the Revised Revolving Facility pursuant to the Loan Agreement (as supplemented by the Supplemental Agreement) have been agreed after arm's length negotiations between the parties with reference to the future funding requirements of the Far Glory Group.

The Directors (excluding the independent non-executive Directors who would give their views on the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) after having been advised by the independent financial adviser) consider that the grant of the Revised Revolving Facility, although not in the ordinary and usual course of business of the Company, is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

### **GEM Listing Rules Implication**

As one of the applicable percentage ratios as defined in the GEM Listing Rules exceeds 5% but is less than 25%, the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder constitute a discloseable transaction under Chapter 19 of the GEM Listing Rules. Far Glory is a connected person of the Company under R.20.11(5) of the GEM Listing Rules. The Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder also constitute a continuing connected transaction for the Company and are subject to the reporting and announcement requirements as well as the Independent Shareholders' approval requirements 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 Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

Mr. Lau Kim Hung, Jack, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Lam Hing Lun, Alain, Mr. Yip Yung Kan, Mr. Wong Ming Kerry (all being ultimate shareholders of Far Glory) and their respective associates shall abstain from voting for the relevant resolution approving the Loan Agreement (as supplemented by the Supplemental 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 Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder 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 15 Business Days after publication of this announcement to the Shareholders containing, among other things, (i) details of the Loan Agreement (as supplemented by the Supplemental Agreement) and the Revised Revolving Facility; (ii) a letter from the Independent Board Committee containing its advice in respect of the Loan Agreement (as supplemented by the Supplemental Agreement); (iii) a letter from an independent financial adviser to the Independent Board Committee and Independent Shareholders containing its advice in respect of the Loan Agreement (as supplemented by the Supplemental Agreement); and (iv) a notice convening the EGM, in compliance with the GEM Listing Rules.

## DEFINITIONS

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

“Beijing e-License”	Beijing YiLaiShen Technology Company Limited (北京易來申科技有限公司)
“Board”	the board of Directors
“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
“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
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Director(s)”	the director(s) of the Company from time to time
“Effective Date”	the third Business Day after all conditions precedent set out in the Supplemental Agreement are satisfied or subject to the satisfaction of all such conditions precedent, any later day as may be agreed between the Company and Far Glory
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, among other matters, the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder
“Far Glory”	Far Glory Limited, a company incorporated in the British Virgin Islands
“Far Glory Group”	Far Glory and its subsidiaries
“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 Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder



“Independent Shareholders”	Shareholders other than Mr. Lau Kim Hung, Jack, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Lam Hing Lun, Alain, Mr. Yip Yung Kan, Mr. Wong Ming Kerry and their respective associates or others who are interested in the Loan Agreement (as supplemented by the Supplemental Agreement) at the forthcoming EGM
“Loan Agreement”	the conditional loan agreement dated 11 February 2010 entered into between the Company, as lender and Far Glory, as borrower, pursuant to which, the Company has agreed to provide the Original Facility
“Original Facility”	up to a maximum amount of HK\$9.5 million to be drawn pursuant to the Loan Agreement, details of which have been disclosed in the Announcement
“PRC”	the People’s Republic of China
“Revised Revolving Facility”	up to a maximum amount of HK\$40 million to be drawn pursuant to the Loan Agreement (as supplemented by the Supplemental Agreement) at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Supplemental Agreement
“Shareholders”	holders of the issued Shares
“Share(s)”	ordinary shares of HK\$0.05 each in the capital of the Company
“Supplemental Agreement”	the supplemental agreement dated 23 July 2010 entered into between the Company and Far Glory, pursuant to which, the Company has agreed to provide the Revised Revolving Facility to Far Glory
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By order of the Board  
**Pang Hong Tao**  
*Chairman*

Hong Kong, 23 July 2010



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

*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 the information contained in this announcement 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 in this announcement misleading.*

*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](http://www.chinadigitallic.com).*