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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 DISPOSAL AND CONNECTED TRANSACTION INVOLVING DISPOSAL OF THE ENTIRE EQUITY INTEREST IN KANHAN TECHNOLOGIES INC. AND RESUMPTION OF TRADING

Financial adviser to the Company



INCU CORPORATE FINANCE LIMITED

DISPOSAL AGREEMENT

On 5 December 2008 (after trading hours), the Company entered into the Disposal Agreement with the Purchaser for the Disposal at a consideration of HK\$1,000,000.

The Disposal constitutes a major disposal on the part of the Company under the GEM Listing Rules. As Mr. Mo is an executive Director, a director of KanHan Inc. and each of the subsidiaries of KanHan Inc., the Disposal also constitutes a connected transaction on the part of the Company under the GEM Listing Rules. The Disposal Agreement will be subject to Independent Shareholders' approval by way of poll at the EGM to be convened and held by the Company.

GENERAL

A circular containing, among other things, further details of the Disposal Agreement and the transactions contemplated thereunder, the letter of advice from the IFA to the IBC and the Independent Shareholders, the recommendation of the IBC to the Independent Shareholders together with the notice of the EGM will be despatched to the Shareholders as soon as practicable and in accordance with the GEM Listing Rules.

At the request of the Company, trading in the Shares has been suspended with effect from 9:30 a.m. on 8 December 2008 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 11 December 2008.

THE DISPOSAL AGREEMENT

Date: 5 December 2008 (after trading hours)

Parties: (1) Vendor : the Company

(2) Purchaser : Mr. Mo

Mr. Mo is a connected person of the Company by virtue of his directorship in the Company, KanHan Inc. and each of the subsidiaries of KanHan Inc.

Assets to be disposed of

116,225 KanHan Inc. Shares, representing 100% of the issued share capital of KanHan Inc. and the Sale Loan.

Consideration

The Consideration of HK\$1,000,000 shall be payable in cash in the following manner:

- (1) the Deposit in the sum of HK\$200,000 shall be paid by the Purchaser to the Company within 5 Business Days after signing of the Disposal Agreement; and
- (2) the balance of the Consideration of HK\$800,000 shall be paid by the Purchaser to the Company at the Completion.

In the event that Completion does not take place as a result of the sole default of the Purchaser or other than the sole default of either the Purchaser or the Company, in accordance with the Disposal Agreement, the Company shall forfeit the Deposit as liquidated damages and whereupon neither party shall take any action to claim for damages or to enforce specific performance or any other rights or remedies.

In the event that Completion does not take place as a result of the sole default of the Company, in accordance with the Disposal Agreement, the Company shall refund the Deposit (without interest) to the Purchaser and whereupon neither party shall take any action to claim for damages or to enforce specific performance or any other rights or remedies.

Conditions

The Disposal Agreement is conditional upon the following conditions being satisfied on or before 28 February 2009 or such other date as the Company may nominate by written notice serving to the Purchaser:

1. the passing by the Independent Shareholders at the EGM of an ordinary resolution to approve the Disposal Agreement and the transactions contemplated thereunder;
2. all necessary consents, authorizations, licences and approvals required to be contained on the part of the Company in respect of the Disposal Agreement and the transactions contemplated thereunder having been obtained;
3. the representations and warranties given by the Purchaser, as set out in the Disposal Agreement remain true and accurate in all respects;
4. the representations and warranties given by the Company as set out in the Disposal Agreement remain true and accurate in all respects; and
5. all necessary consents, authorizations, licences and approvals required to be obtained on the part of the Purchaser in respect of the Disposal Agreement and the transactions contemplated hereunder having been obtained.

Condition (3) as set out above may be waived by the Company at any time before Completion by written notice to the Purchaser, whereas condition (4) as set out above may be waived by the Purchaser at any time before Completion by written notice to the Company. If the above conditions have not been satisfied on or before the 28 February 2009 or such other date as the Company may nominate by written notice serving to the Purchaser, the Disposal Agreement shall cease and determine and thereafter neither party shall have any obligations and liabilities towards each other thereunder.

Completion

Completion of the Disposal Agreement will take place within 3 Business Days after satisfaction of the above conditions.

Upon Completion, the Company will cease to have any interest in the KanHan Inc. Group, and the KanHan Inc. Group will cease to be subsidiaries of the Company.

Basis of the Consideration

The Consideration was arrived at after arm's length negotiations between the parties to the Disposal Agreement with reference to (i) the net liabilities of the KanHan Inc. Group of approximately HK\$26.35 million based on the unaudited management account of the KanHan Inc. Group as at 30 September 2008; and (ii) the economic benefits to be accrued to the Company for the disposal of the loss making business being carried out by the KanHan Inc. Group as elaborated in the section headed "Reasons for and benefits of the Disposal and intended use of proceeds" below. The Directors (excluding the independent non-executive Directors who would give their views on the terms of the Disposal after having been advised by the IFA), consider that the terms of the Disposal Agreement and the transactions contemplated thereunder are entered into upon normal commercial terms following arm's length negotiations among the parties and the terms are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

INFORMATION ON THE KANHAN INC. GROUP

The KanHan Inc. Group is principally engaged in the development and marketing of patented server based technology and the provision of software related services.

The financial information of the KanHan Inc. Group for the two financial years ended 31 December 2006 and 2007 and nine months ended 30 September 2008 are as follows:

	Year ended 31 December 2006 (Audited) <i>HK\$'000</i>	Year ended 31 December 2007 (Audited) <i>HK\$'000</i>	Nine months ended 30 September 2008 (Unaudited) <i>HK\$'000</i>
Results			
Turnover	6,622	6,929	5,379
Loss before tax	(2,509)	(1,777)	(648)
Loss after tax	(2,509)	(1,777)	(648)
	As at 31 December 2006 (Audited) <i>HK\$'000</i>	As at 31 December 2007 (Audited) <i>HK\$'000</i>	As at 30 September 2008 (Unaudited) <i>HK\$'000</i>
Assets and liabilities			
Total assets	2,959	2,216	2,692
Net liabilities	(23,797)	(25,622)	(26,355)

REASONS FOR AND BENEFITS OF THE DISPOSAL AND INTENDED USE OF PROCEEDS

The Group is principally engaged in the provision and development of on-line education programs, through its self-developed websites to provide languages (English and Chinese) and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau. The Group has also invested in copyright management and digital licensing business.

Due to keen competition in the patented server based technology and the software related business, KanHan Inc. Group recorded audited loss of approximately HK\$2,509,000 and HK\$1,777,000 for the two financial years ended 31 December 2006 and 31 December 2007 respectively. For the nine months ended 30 September 2008, based on the unaudited management account of KanHan Inc. Group, loss of approximately HK\$648,000 was made. Given the unfavourable market conditions and the continued loss making positions incurred by the Group on such business in the past, the Directors believe that the patented server based technology and the software related business is unable to return to profit in the near future.

After the Disposal, the Group will be principally engaged in the provision and development of on-line education business. Such business commenced operation in January 2008 and subsequently acquired by the Group in June 2008. The Directors are of the view that the on-line education business is of high profitability potential. As a newly established business, the Group has already established close relationship with reputable multi-national educational institutions and teaching materials publisher, namely, Cambridge University Press, British Broadcasting Corporation (“BBC”) and the Commercial Press (H.K.) Ltd, for the provision of teaching materials and contents on the Group’s on-line education websites and currently over 200,000 students in approximately 280 primary and secondary schools in Hong Kong and Macau are the subscribers of the on-line education programs of the Group. It is necessary to point out that the online education business only commenced in January 2008 and there are still rooms for further participation by the other primary and secondary schools in Hong Kong, Macau and the PRC.

With the Disposal, the Group will be able to deploy all its resources on the on-line education business, which is of stable income and profit and is in the interest to the Shareholders and the Group as a whole.

It is estimated that, upon Completion, the Group will record a gain on disposal of approximately HK\$4,381,000. Such gain is estimated based on the difference between (i) the Consideration and (ii) the net liabilities of KanHan Inc. Group of approximately HK\$26,355,000 million after elimination of (a) the Sale Loan of approximately HK\$22,816,000 as at the date of the Disposal Agreement and (b) the exchange reserves of approximately HK\$158,000. The final amount of the actual gain or loss as a result of the Disposal will be determined upon Completion.

The Board intends to apply the net sale proceeds of approximately HK\$0.8 million for general working capital.

GEM LISTING RULES IMPLICATION

The Disposal constitutes a major disposal on the part of the Company under the GEM Listing Rules. As Mr. Mo is an executive Director, a director of KanHan Inc., each of the KanHan Inc. Subsidiaries, the Disposal also constitutes a connected transaction on the part of the Company under the GEM Listing Rules. The Disposal Agreement will be subject to Independent Shareholders' approval at the EGM by way of poll.

Mr. Mo and his respective associates will abstain from voting to approve the Disposal Agreements at the EGM. As at the date of this announcement, Mr. Mo and his respective associates have 21,385,920 Shares, which represents approximately 1.61 % of the issued share capital of the Company.

The IBC comprising all the three independent non-executive Directors will be formed to advise the Independent Shareholders as to whether the terms of the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole and to advise on the Independent Shareholders on how to vote, taking into account the recommendations of the IFA. The IFA will be appointed by the IBC to advise the IBC and the Independent Shareholders in this regard.

GENERAL

A circular containing, among other things, further details of the Disposal Agreement and the transactions contemplated thereunder, the letter of advice from the IFA to the IBC and the Independent Shareholders, the recommendation of the IBC to the Independent Shareholders together with the notice of the EGM will be despatched to the Shareholders as soon as practicable and in accordance with the GEM Listing Rules.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares has been suspended with effect from 9:30 a.m. on 8 December 2008 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 11 December 2008.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“associates”	has the meaning associated thereto in the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday or 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
“Completion”	the completion of the Disposal in accordance with the terms and conditions of the Disposal Agreement
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Consideration”	the consideration of HK\$1,000,000 for the sale and purchase of 116,225 KanHan Inc. Shares and the Sale Loan pursuant to the Disposal Agreement
“Deposit”	the deposit of HK\$200,000 payable by the Purchaser to the Company under the Disposal Agreement
“Directors”	the directors of the Company, including the independent non-executive directors
“Disposal”	the proposed disposal of the entire issued share capital of KanHan Inc. and the Sale Loan under the Disposal Agreement
“Disposal Agreement”	the conditional agreement dated 5 December 2008 and entered into between the Company and Mr. Mo in relation to the sale and purchase of 116,225 KanHan Inc. Shares and the Sale Loan
“EGM”	the extraordinary general meeting of the Company to be convened to consider and if thought fit, approve the Disposal Agreement and the transaction contemplated thereunder

“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 (which shall exclude, where the context requires, the KanHan Inc. Group after completion of the Disposal Agreement)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IBC”	an independent board committee of the Board comprising all the three independent non-executive Directors to advise the Independent Shareholders as to the terms of the Disposal Agreement and how to vote, taking into account the recommendations of the IFA
“IFA”	an independent financial adviser to be appointed to advise the IBC and the Independent Shareholders whether the terms of the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole
“Independent Shareholders”	the Shareholders other than Mr. Mo and his associates or others who are interested in the Disposal
“KanHan Inc.”	KanHan Technologies Inc., a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
“KanHan Inc. Group”	KanHan Inc., together with the subsidiaries of KanHan Inc.
“KanHan Inc. Share(s)”	share(s) of US\$1 each in the share capital of KanHan Inc.
“Mr. Mo”	Mr. Mo Wai Ming, Lawrence, an executive Director, a director of KanHan Inc. and each of the subsidiaries of KanHan Inc.
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Mr. Mo
“Sale Loan”	all obligations, liabilities and debts owing or incurred by the KanHan Inc. to the Company on Completion, which amounted to approximately HK\$22.82 million as at the date of the Disposal Agreement

“Shareholders”	holders of the issued Shares
“Share(s)”	share(s) of HK\$0.05 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

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

Hong Kong, 10 December 2008

As at the date of this announcement, the executive Directors are Mr. Pang Hong Tao, Peter, Mr. Mo Wai Ming, Lawrence 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 Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) 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 the “Latest Company Announcements” page of the GEM website (www.hkgem.com) for at least 7 days from its date of publication and the Company’s website at www.kanhan.com.