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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 CONNECTED TRANSACTION**

#### **ACQUISITION OF APPROXIMATELY 9.17% 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**

On 14 August 2009, the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendor pursuant to which the Purchaser shall purchase and the Vendor shall sell, the Sale Shares, which represents approximately 9.17% of the total issued share capital of Far Glory, for a total consideration of HK\$13,755,000.

Upon completion of the Acquisition, the Purchaser will own approximately 29.43% shareholding interest in Far Glory, which in turn owns 50% indirect shareholding interest in Beijing e-License.

The Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. Since Mr. Hsu Tung Sheng, an executive Director and his younger brother, Mr. Hsu Tung Chi are substantial shareholders of Far Glory, the Acquisition therefore also constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules. The Acquisition 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) a letter from the Independent Board Committee containing its advice in respect of the Acquisition; (iii) a letter from an independent financial advisor to the Independent Board Committee and Independent Shareholders containing its advice in respect of the Acquisition; and (iv) 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 17 August 2009 pending the release of this announcement. Trading of the Shares will resume at 9:30 a.m. on 19 August 2009.

Reference is made to the circulars of the Company dated 5 May 2008 and 30 May 2008 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 holding approximately 20.26% shareholding in Far Glory.

On 14 August 2009, the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendor pursuant to which the Purchaser shall purchase and the Vendor shall sell the Sale Shares for a total consideration of HK\$13,755,000.

## **THE AGREEMENT**

Date: 14 August 2009

Parties:

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

Vendor: Mr. Yuan Sheng Jun

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor is third party independent of the Company and its connected persons (as defined in the GEM Listing Rules).

The Vendor is a merchant and a private investor who has extensive experience in the telecommunication, information technology and patent and digital licensing management businesses in the PRC.

### **Assets to be acquired**

The Sale Shares, representing approximately 9.17% of the total issued share capital of Far Glory.

Far Glory, which is owned as to 20.26%, 28.37%, 1.50%, 9.17% and 19.91% by the Purchaser, Mr. Hsu Tung Chi, Mr. Hsu Tung Sheng, the Vendor 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 is the younger brother of Mr. Hsu Tung Sheng. Mr. Lau, Mr. Hsu Tung Chi and Mr. Hsu Tung Sheng owns 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, 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\$13,755,000, which shall be payable by the Purchaser by procuring the Company to allot and issue the Consideration Shares at the Issue Price upon Completion.

The Consideration represents 10 price earning multiples (which is the lower range of the profit earning ratios of a number of listed companies engaging similar business to Far Glory in Hong Kong as stated below) of the Former Profit Guarantee and equity interest to be acquired in Far Glory (i.e. HK\$15,000,000 x 10 x 9.17% = HK\$13,755,000).

The Consideration was agreed between the Vendor and the Purchaser after arm's length negotiations after considering: (i) the discussion with the management and shareholders of Far Glory in relation to the business development of the Target Group, who are of the view that, despite the fact that the business development of the Target Group has been delayed by the restructuring of telecommunication industry in the PRC in 2008 and the global financial tsunami in the second half of 2008, the prospect of the business of the Target Group remain the same as when the Former Profit Guarantee was arrived at. As the Target Group will commence operation in the fourth quarter of 2009, the management of the Target

Group is optimistic that the Former 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 will be achievable; (ii) the 10 price earning multiples is lower than the previous acquisition of 12% Far Glory shareholding interest of 15 price earning multiples; and (iii) the current price earning ratios of companies listed on the Stock Exchange engaging in information technology business similar to the Target Group (“**Comparables**”) ranging from about 4.07 to about 36.10 times, 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 to the Vendor.

Conditions (a) and (c) above are 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 conditions (a) and (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 beneficially owns approximately 20.26% of the total issued share capital of Far Glory and will own approximately 29.43% of the total issued share capital of Far Glory upon Completion.

Upon Completion, Far Glory will continue to be accounted for as the associated company of the Company.

## **Long-stop date**

If all of the conditions are not fulfilled (or as the case may be, waived by the Purchaser) within three months from the date of the Agreement (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 146,329,787 new Consideration Shares will be 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 5.05% to the closing price of HK\$0.099 per Share as quoted on the Stock Exchange on 13 August 2009, being the last trading day immediately prior to the entering into of the Agreement; and
- (ii) a discount of approximately 5.81% to the average of the closing prices of HK\$0.0998 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 13 August 2009, being the last trading day immediately prior to the entering into of the Agreement.

The Consideration Shares represent approximately 10.23% of the existing issued share capital of the Company and approximately 9.29% 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 73,164,893 Consideration Shares or any interests therein or grant any options or rights in respect of more than 73,164,893 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 market price of the Shares 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.

### 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; and (ii) immediately after Completion and the allotment and issue of the Consideration Shares:

Shareholders	As at the date of this announcement and before Completion		Immediately after Completion and the allotment and issue of the Consideration Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Manciple Enterprises Limited ( <i>Note 1</i> )	360,698,238	25.24%	360,698,238	22.89%
Ms. Chan Yiu Kan Katie ( <i>Note 1</i> )	4,500,000	0.31%	4,500,000	0.29%
Subtotal	365,198,238	25.55%	365,198,238	23.18%
<i>Directors (Note 2)</i>				
Hsu Tung Sheng	13,000,000	0.91%	13,000,000	0.83%
Pang Hong Tao	21,500,000	1.51%	21,500,000	1.36%
Ma She Shing, Albert	9,870,000	0.69%	9,870,000	0.63%
Au Shui Ming Anna	35,500,000	2.48%	35,500,000	2.25%
Subtotal	79,870,000	5.59%	79,870,000	5.07%
The Vendor	—	—	146,329,787	9.29%
Public	984,206,842	68.86%	984,206,842	62.46%
Total:	<u>1,429,275,080</u>	<u>100.00%</u>	<u>1,575,604,867</u>	<u>100.00%</u>

*Notes:*

1. Manciple Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly and beneficially owed by Mr. Lau. Accordingly, Mr. Lau is deemed to be interested in 360,698,238 Shares.

Ms. Chan Yiu Kan Katie (“Ms. Chan”) owns 4,500,000 Shares, by virtue of being spouse of Ms. Chan, Mr. Lau is deemed to be interested in 4,500,000 Shares held by Ms. Chan.

2. Mr. Hsu Tung Sheng, Mr. Pang Hong Tao, and Ms. Au Shui Ming, Anna are executive Directors. Mr. Ma She Shing, Albert is a non-executive Director.

## **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).

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 HK 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 following the entry into the World Trade Organization in 2001, 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. Moreover, the related copyright management and digital content licensing solutions are particularly vital to the practitioners of the aforesaid industries. Moreover, with the introduction of 3G



in the PRC earlier this year and the growing popularity of Internet for entertainment purpose in the PRC, the Group is of the view that development of its digital licensing business in the areas of Internet and telecommunications are of high profitability potential in the PRC.

The business development of the Target Group has been delayed in 2008. 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. Moreover, 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. As a result, the business plan of the Target Group has been delayed and the Target Group has not yet generated any revenue up to the period ended 30 June 2009.

The Target Group has entered into 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) on Internet. The Board is of the view that with the support of such PRC Governmental authority and e-License Inc. (Japan), the business plan of the Target Group will be implemented in an efficient manner and hence, the business development of the Group will be enhanced.

The Group is in the final negotiation stage with the telecommunication operators in the PRC for the provision of copyright management solution and the distribution of copyright protected contents (such as music, video contents and mobile network games, etc.) to the subscribers of 3G mobile of the telecommunication operators. The entire telecommunication industry has been focusing on the development of 3G and such market is expected to take into shape in imminent future. The Board is of the view that, with the increasing popularity of 3G in the PRC and the mass customer base of the telecommunication operators, such co-operation will generate high profitability to the Group.

The Target Group has also entered into distribution agreement with one of the leading global music companies for the provision of copyright protected contents (such as music, video contents and mobile network games, etc.) to the two telecommunication operators in the PRC. Through such agreement, the copyright protected contents to be provided to the telecommunication operators will be enriched. Hence, the co-operation with the telecommunication operators will be facilitated and thus will enhance the business development and profitability of the Group.

The management of the Target Group is of the view that it will commence operation in the fourth quarter of 2009.

In light of the above business development of the Target Group, 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 and generate significant profitability in the future. Thus, despite of the



fact that the business development of the Target Group has been delayed, 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 Acquisition constitutes a discloseable transaction on the part of the Company under the GEM Listing Rules. Since Mr. Hsu Tung Sheng, an executive Director and his younger brother, Mr. Hsu Tung Chi are substantial shareholders of Far Glory, the Acquisition therefore also constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules. The Acquisition 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. 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 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) a letter from the Independent Board committee containing its advice and recommendation in respect of the Acquisition; (iii) 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; and (iv) 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 17 August 2009 pending the release of this announcement. Trading of the Shares will resume at 9:30 a.m. on 19 August 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 14 August 2009 entered into between the Purchaser and the Vendor 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
“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
“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\$13,755,000
“Consideration Shares”	an aggregate of 146,329,787 Shares to be issued and allotted to the Vendor for the Consideration
“Director(s)”	the director(s) of the Company from time to time

“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
“Far Glory”	Far Glory Limited, a company incorporated in the British Virgin Islands
“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
“Independent Shareholders”	Shareholders other than 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”	1,000 ordinary shares of Far Glory, representing approximately 9.17% 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
“Vendor”	Mr. Yuan Sheng Jun
“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, 18 August 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](http://www.chinadigitallic.com).*