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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)

**CONNECTED TRANSACTION  
ENTERING INTO SUPPLEMENTAL AGREEMENT  
FOR THE EXTENSION OF TIME FOR  
THE FULFILLMENT OF PROFIT GUARANTEE  
AND  
CHANGE OF TERMS OF THE FIRST TRANCHE CONVERTIBLE BOND  
BY WAY OF A SUPPLEMENTAL DEED**

**Financial adviser to the Company**



**INCU Corporate Finance Limited**

### **Connected Transaction**

Reference is made to the announcement of the Company dated 6 May 2008 and the Circular. Reference is also made to the announcement of the Company dated 18 February 2011 in relation to, among other matters, the possible extension of the time for fulfillment of the agreed guaranteed profit.

Based on the audited accounts of the Far Glory Group for the years ended 31 December 2009 and 2010, the average of the audited consolidated net loss after tax of the Far Glory Group for the financial years ended 31 December 2009 and 31 December 2010 is approximately HK\$6,300,000, and accordingly, the Shortfall of approximately HK\$21,300,000 was recorded. The Shortfall is mainly the result of the delay in the business development of the Far Glory Group during 2009 and 2010.

On 1 April 2011 (after trading hours), the Purchaser, the Vendor and the Guarantor have entered into the Supplemental Agreement for, among others, the extension of the time for the fulfillment of the agreed guaranteed profit and the amendment of certain terms of the Agreement, details of which are set out below in this announcement.

As at the date of this announcement, the Vendor and the Guarantor are executive Directors. The Vendor is interested in 60,070,000 Shares, representing approximately 2.74% of the existing share capital of the Company. The Vendor is also interested in 15,000,000 share options and 308,424,349 convertible bonds of the Company. The Guarantor is interested in 19,000,000 Shares, representing approximately 0.87% of the existing share capital of the Company and 15,000,000 share options of the Company. By virtue of being executive Directors of the Company, the Supplemental Agreement and the transactions contemplated thereunder (including the change of terms of the First Tranche Convertible Bond) constitute a non-exempt connected transaction of the Company under the Rule 20.17 of the GEM Listing Rules and are subject to the requirements of reporting, announcement and the approval of the Independent Shareholders at the EGM. The Vendor, the Guarantor, Mr. Lau Kim Hung (a substantial Shareholder who is interested in approximately 19.91% equity interests in Far Glory) and their respective associates have to abstain from voting in relation to the Supplemental Agreement and the transactions contemplated thereunder at the EGM.

Pursuant to Rule 34.05 of the GEM Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration take effect automatically under the existing terms of such convertible debt securities. The Company will apply to the Stock Exchange for its approval of the proposed amendments under the First Tranche Convertible Bond contemplated by the Supplemental Deed pursuant to Rule 34.05 of the GEM Listing Rules.

The Independent Board Committee will be established to advise the Independent Shareholders in respect of the terms of the Supplemental Agreement and the transactions contemplated thereunder. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, further details of the Supplemental Agreement and the Supplemental Deed, the recommendation of the Independent Board Committee, the advice of the independent financial adviser to the Independent Board Committee and Independent Shareholders, and a notice of the EGM will be despatched to the Shareholders within 15 Business Days on or before 27 April 2011 and in accordance with the GEM Listing Rules.

## **INTRODUCTION**

Reference is made to the announcement of the Company dated 6 May 2008 and the Circular. Reference is also made to the announcement of the Company dated 18 February 2011 in relation to, among other matters, the possible extension of the time for fulfillment of the agreed guaranteed profit. Unless otherwise stated herein, terms used in the Circular shall have the same meaning as used herein.

As set out in the Agreement, the Vendor has warranted and the Guarantor has guaranteed in favour of the Group that the average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ended 31 December 2009 and 31 December 2010 will not be less than HK\$15,000,000. In accordance with the Agreement, if the actual average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2009 and 31 December 2010 is less than HK\$15,000,000 (the “**Shortfall**”), the Vendor shall set off an amount, being the product of the Shortfall and the equity interests acquired by the Purchaser, against the face value of the First Tranche Convertible Bond with a principal amount of HK\$4,000,000 on a dollar to dollar basis. If the Shortfall exceeds the face value of the First Tranche Convertible Bond, the Vendor shall compensate the Group in cash of such excess. In case of non-fulfillment of the average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2009 and 31 December 2010 of not less than HK\$15,000,000, the Shortfall needs to be settled in accordance with the Agreement unless otherwise agreed.

Based on the audited accounts of the Far Glory Group for the years ended 31 December 2009 and 2010, the average of the audited consolidated net loss after tax of the Far Glory Group for the financial years ended 31 December 2009 and 31 December 2010 is approximately HK\$6,300,000, and accordingly, the Shortfall of approximately HK\$21,300,000 was recorded. The Shortfall is mainly the result of the delay in the business development of the Far Glory Group during 2009 and 2010.

Having considered the business prospects of the Far Glory Group, on 1 April 2011 (after trading hours), the Purchaser, the Vendor and the Guarantor have entered into the Supplemental Agreement for, among others, the extension of the time for the fulfillment of the agreed guaranteed profit and the amendment of certain terms of the Agreement, details of which are set out below.

## **THE SUPPLEMENTAL AGREEMENT**

### **Signing parties**

Date: 1 April 2011 (after trading hours)

Parties:

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

Vendor: Mr. Hsu Tung Chi, an executive Director and the chief executive officer of the Company, therefore a connected person of the Company as at the date of this announcement

Guarantor: Mr. Hsu Tung Sheng, an executive Director and the chairman of the Company, therefore a connected person of the Company as at the date of this announcement

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Vendor and the Guarantor were third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules) as at the date of entering into the Agreement.

## **Extension of time for fulfillment of the agreed guaranteed profit and the New Average Guaranteed Profit**

Under the Agreement, the maximum total consideration for the Sale Shares is HK\$45,000,000, HK\$27,000,000 being the basic consideration (the “**Basic Consideration**”), of which HK\$23,000,000 has been settled by the Group in the following manner: (i) HK\$5,000,000 paid by the Purchaser in cash to the Vendor; and (ii) a convertible bond in the principal sum of HK\$18,000,000 has been issued by the Company to the Vendor upon Completion. The First Tranche Convertible Bond in the principal sum of HK\$4,000,000 has been issued upon Completion and held on escrow by the Purchaser pending the fulfillment of the agreed guaranteed profit.

Under the Agreement, the remaining balance of the total consideration for the Sale Shares (excluding the Basic Consideration), being a maximum of HK\$18,000,000 (the “**Balance Consideration**”) shall be payable by the Purchaser to the Vendor in the following manner:

- (a) HK\$5,400,000 by the Purchaser procuring the Company to issue the Extra Convertible Bond provided that the Average Actual Profit is equal to or greater than HK\$18,000,000 but less than HK\$25,000,000. For the avoidance of doubt, if the Target Group fails to achieve the Average Actual Profit of HK\$18,000,000, the Purchaser has no obligation to pay to the Vendor such amount of the Balance Consideration as referred to in this paragraph (a); or
- (b) HK\$18,000,000 by the Purchaser procuring the Company to issue the Extra Convertible Bond provided that the Average Actual Profit is not less than HK\$25,000,000. For the avoidance of doubt, if the Target Group fails to achieve the Average Actual Profit of HK\$25,000,000, the Purchaser has no obligation to pay to the Vendor such amount of the Balance Consideration as referred to in this paragraph (b).

Having considered the business prospects of the Far Glory Group and pursuant to the Supplemental Agreement, the Purchaser, the Vendor and the Guarantor agreed to extend the time for the fulfillment of the guaranteed profit and revise the guaranteed profit. Under the Supplemental Agreement, the Vendor has irrevocably warranted, and the Guarantor has irrevocably guaranteed to the Purchaser that (1) the average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2011 and 31 December 2012 will not be less than HK\$15,000,000 (“**New Average Guaranteed Profit**”); or (2) the audited consolidated net profits after tax of the Far Glory Group for the financial year ending 31 December 2011 (“**2011 Actual Profit**”) will not be less than HK\$30,000,000.

Under the Supplemental Agreement, the fulfillment of the Balance Consideration has been extended and accordingly, the Balance Consideration shall be payable by the Purchaser to the Vendor in the following manner:

- (a) HK\$5,400,000 by the Purchaser procuring the Company to issue the Extra Convertible Bond provided that (i) the Average Actual Profit is equal to or greater than HK\$18,000,000 but less than HK\$25,000,000; or (ii) the 2011 Actual Profit is equal to or greater than HK\$36,000,000 but less than HK\$50,000,000. The principal amount of the Extra Convertible Bond of HK\$5,400,000 is calculated on the basis:  $(\text{HK\$18,000,000} - \text{New Average Guaranteed Profit}) \times 12\% \times 15$ . For the avoidance of doubt, if the Far Glory Group fails to achieve the Average Actual Profit of HK\$18,000,000, the Purchaser has no obligation to pay to the Vendor such amount of the Balance Consideration as referred to in this paragraph (a); or
- (b) HK\$18,000,000 by the Purchaser procuring the Company to issue the Extra Convertible Bond provided that (i) the Average Actual Profit is equal to or greater than HK\$25,000,000; or (ii) the 2011 Actual Profit is equal to or greater than HK\$50,000,000. The principal amount of the Extra Convertible Bond of HK\$18,000,000 is calculated on the basis:  $(\text{HK\$25,000,000} - \text{New Average Guaranteed Profit}) \times 12\% \times 15$ . For the avoidance of doubt, if the Far Glory Group fails to achieve the Average Actual Profit of HK\$25,000,000, the Purchaser has no obligation to pay to the Vendor such amount of the Balance Consideration as referred to in this paragraph (b).

As a security for the compensation mechanism of non-fulfillment of the New Average Guaranteed Profit, the Vendor further agreed that the Escrowed Convertible Bonds will be escrowed by the Purchaser. The Escrowed Convertible Bonds include the First Tranche Convertible Bond and the Second Tranche Convertible Bond. The First Tranche Convertible Bond refers to a convertible bond in the principal amount of HK\$4,000,000 due on 19 June 2011 and issued by the Company in favour to the Vendor pursuant to the Agreement. The Second Tranche Convertible Bond refers to a convertible bond in the principal amount of HK\$26,903,000 issued by the Company due on 15 December 2014 in favour of Daily Technology Company Limited (98% equity interests of which is owned by the Vendor) pursuant to the agreement in relation to the acquisition of 21.57% equity interests in Far Glory, of which principal amount of HK\$4,400,000 will be escrowed by the Purchaser pursuant to the terms of the Supplemental Agreement. The Escrowed Convertible Bonds will be released to the Vendor upon the Purchaser confirming that the profit guarantee as guaranteed by the Vendor in the Supplemental Agreement has been met.

### **Revised consideration adjustment mechanism**

If the Average Actual Profit is less than the New Average Guaranteed Profit of HK\$15,000,000, then the Vendor shall pay the amount of compensation in cash to the Purchaser. The amount of compensation is calculated as follows:

$$A = (\text{New Average Guaranteed Profit} - \text{Average Actual Profit}) \times 12\% \times 15$$

The maximum amount of the compensation payable by the Vendor to the Purchaser is the Basic Consideration.

The Company will publish an announcement when the Average Actual Profit, the amount of the Balance Consideration, if any, and the amount and arrangement of the compensation are ascertained.

## **Conditions precedent**

Completion of the Supplemental Agreement are conditional upon (i) the passing by the Independent Shareholders at the EGM to be convened and held of the necessary resolution(s) to approve the Supplemental Agreement and the transactions contemplated thereunder; (ii) the GEM Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares and the Extra Conversion Shares; and (iii) all necessary consents and approvals required to be obtained on the part of the Purchaser and the Vendor in respect of the Supplemental Agreement and the transactions contemplated thereunder having been obtained.

In the event of the above conditions not being fulfilled by 30 June 2011 (or such other time and date as may be agreed between the Vendor, the Guarantor and the Purchaser), all rights, obligations and liabilities of the parties thereunder, shall cease and determine and neither party shall have any claim against the other, save for any prior antecedent breaches.

## **Completion**

Completion of the Supplemental Agreement shall take place within three Business Days after the above conditions have been fulfilled (or at such other time and on such other date the Vendor, the Guarantor and the Purchaser may agree).

## **CHANGE OF TERMS OF THE FIRST TRANCHE CONVERTIBLE BOND**

The First Tranche Convertible Bond refers to a convertible bond in the principal amount of HK\$4,000,000 due on 19 June 2011 and issued by the Company in favour to the Vendor pursuant to the Agreement. Subject to the approval of the Independent Shareholders at the EGM and fulfillment of conditions precedent under the Supplemental Agreement, the maturity date of the First Tranche Convertible Bond will be extended to 31 December 2014 by way of the Supplemental Deed.

Other than the extended maturity date of the First Tranche Convertible Bond, other terms of the First Tranche Convertible Bond remain unchanged.

A new bond certificate will be issued to the Vendor upon completion of the change of the terms of the First Tranche Convertible Bonds by way of the Supplemental Deed. The bond certificate will be escrowed by the Company and will be released to the Vendor until fulfillment of the New Average Guaranteed Profit or the 2011 Actual Profit is equal to or greater than HK\$30,000,000.

## **Application for listing**

No application will be made by the Company for the listing of the First Tranche Convertible Bond. Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares. The Conversion Shares will be issued pursuant to the specific mandate to be sought at the EGM.

The Conversion Shares will not be subject to any sale restriction or lock up.

## **TERMS OF THE EXTRA CONVERTIBLE BOND**

The terms of the Extra Convertible Bond remain unchanged under the Supplemental Agreement and have been negotiated on an arm's length basis and the principal terms of which are summarised below:

### **Issuer**

The Company

### **Maximum principal amount**

Up to HK\$18,000,000

### **Interest**

The Extra Convertible Bond will carry interest at a rate of 1% per annum, payable quarterly.

### **Maturity**

A fixed term of three years from the date of issue of the Extra Convertible Bond.

### **Conversion**

The Bondholder may convert the whole or part (in multiples of HK\$1,000,000) of the principal amount of the Extra Convertible Bond into the Extra Conversion Shares at the Conversion Price for the period commencing from the date of issue of the Extra Convertible Bond up to the maturity date of the Extra Convertible Bond.

### **Conversion Price**

The Conversion Price is HK\$0.18 per Extra Conversion Share. The Company will issue an announcement when there is any adjustment to the Conversion Price and the adjustment will be certified by the Company's auditor or by the merchant bank.

### **Extra Conversion Shares**

Assuming there is an immediate exercise in full of the conversion rights attaching to the Extra Convertible Bond in the aggregate principal amount of up to HK\$18,000,000 at the Conversion Price by the Bondholder, the Company will issue an aggregate of up to 100,000,000 Extra Conversion Shares, representing approximately (i) 4.56% of the existing issued share capital of the Company; and (ii) approximately 4.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares and the Extra Conversion Shares. For further details, please refer to the paragraph "Changes in the shareholding structure" below.

## **Early redemption**

The Company will, at its discretion, redeem the Extra Convertible Bond in whole or in part in multiples of HK\$1,000,000 at any time prior to the maturity date of the Extra Convertible Bond.

## **Ranking**

The Extra Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue at the date of the conversion.

## **Transferability**

The Extra Convertible Bond may be transferred or assigned by the Bondholder to any party other than a connected person of the Company.

## **Voting rights**

The Extra Convertible Bond does not confer any voting rights at any meetings of the Company.

## **Application for listing**

No application will be made by the Company for the listing of the Extra Convertible Bonds. Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Extra Conversion Shares. The Extra Conversion Shares will be issued pursuant to the specific mandate to be sought at the EGM.

The Extra Conversion Shares will not be subject to any sale restriction or lock up.

## **CHANGES IN SHAREHOLDING STRUCTURE**

As at the date of this announcement, the Company has 2,195,085,643 Shares in issue, 98,000,000 outstanding share options, 290,500,000 warrants issued on 2 September 2010 and convertible bonds in the principal amount of HK\$26,903,000 with conversion rights to convert into 286,202,127 Shares at the conversion price of HK\$0.094 issued on 16 December 2009.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the following table sets out the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after full conversion of the First Tranche Convertible Bond to Conversion Shares at the Conversion Price; (iii) immediately after full conversion of the First Tranche Convertible Bond to Conversion Shares and the Extra Convertible Bond to Extra Conversion Shares at the Conversion Price, assuming no further Shares (including conversion of convertible bonds and exercise of share options) will be issued or no Shares will be repurchased before the allotment and issue of the Conversion Shares; (iv) immediately after exercise of 98,000,000 options and full conversion of 290,500,000 warrants, partial conversion of the convertible bond in the principal amount of HK\$26,903,000, of which principal amount of HK\$10,481,000 with conversion rights to convert into 111,500,000 Shares at the conversion price of HK\$0.094 and full conversion of the First Tranche Convertible Bond and the Extra



Convertible Bond into the Conversion Shares and the Extra Conversion Shares; and (v) immediately after exercise of 98,000,000 options and full conversion of 290,500,000 warrants, the convertible bond in the principal amount of HK\$26,903,000 with conversion rights to convert into 286,202,127 Shares at the conversion price of HK\$0.094, the First Tranche Convertible Bond and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares:

Shareholders	As at the date of this announcement		Immediately after full conversion of the First Tranche Convertible Bonds into the Conversion Shares		Immediately after full conversion of the First Tranche Convertible Bonds and the Extra Conversion Shares		Immediately after exercise of 98,000,000 options and full conversion of 290,500,000 warrants, partial conversion of the convertible bond in the principal amount of HK\$26,903,000, of which principal amount of HK\$10,481,000 with conversion rights to convert into 111,500,000 Shares at the conversion price of HK\$0.094, and full conversion of the First Tranche Convertible Bond and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares immediately before triggering a mandatory general offer obligation under the present provision of the Code (Note 6)		Immediately after exercise of 98,000,000 options and full conversion of 290,500,000 warrants, the convertible bond in the principal amount of HK\$26,903,000 with conversion rights to convert into 286,202,127 Shares at the conversion price of HK\$0.094, the First Tranche Convertible Bond and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares (Note 7)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
	Manciple Enterprises Limited (Note 1)	482,698,238	21.99%	482,698,238	21.77%	482,698,238	20.83%	482,698,238	17.13%	482,698,238
Eagle Strategy Limited (Note 1)	15,000,000	0.68%	15,000,000	0.68%	15,000,000	0.65%	15,000,000	0.53%	15,000,000	0.50%
Ms. Chan Yiu Kan Katie (Note 1)	4,500,000	0.21%	4,500,000	0.20%	4,500,000	0.19%	4,500,000	0.16%	4,500,000	0.15%
Subtotal	502,198,238	22.88%	502,198,238	22.65%	502,198,238	21.67%	502,198,238	17.83%	502,198,238	16.78%
Directors										
Hsu Tung Sheng (Note 2)	19,000,000	0.87%	19,000,000	0.86%	19,000,000	0.82%	34,000,000	1.20%	34,000,000	1.14%
Hsu Tung Chi (Note 3)	60,070,000	2.74%	82,292,222	3.74%	182,292,222	7.87%	308,792,222	10.96%	483,494,349	16.16%
Subtotal	79,070,000	3.61%	101,292,222	4.60%	201,292,222	8.69%	342,792,222	12.16%	517,494,349	17.30%
Pang Hong Tao (Note 4)	42,800,000	1.95%	42,800,000	1.93%	42,800,000	1.85%	50,800,000	1.80%	50,800,000	1.70%
Au Shui Ming, Anna (Note 5)	54,500,000	2.48%	54,500,000	2.46%	54,500,000	2.35%	62,500,000	2.22%	62,500,000	2.09%
Subtotal	97,300,000	4.43%	97,300,000	4.39%	97,300,000	4.20%	113,300,000	4.02%	113,300,000	3.79%
Public	1,516,517,405	69.09%	1,516,517,405	68.39%	1,516,517,405	65.44%	1,859,017,405	65.99%	1,859,017,405	62.13%
Total	<u>2,195,085,643</u>	<u>100.00%</u>	<u>2,217,307,865</u>	<u>100.00%</u>	<u>2,317,307,865</u>	<u>100.00%</u>	<u>2,817,307,865</u>	<u>100.00%</u>	<u>2,992,009,992</u>	<u>100.00%</u>

*Notes:*

1. Manciple Enterprises Limited (“Manciple”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“Mr. Lau”). Manciple beneficially owns 482,698,238 Shares. Under the SFO, Mr. Lau is deemed to be interested in 482,698,238 Shares. Mr. Lau is also deemed to be interested in 15,000,000 Shares owned by Eagle Strategy Limited, which is wholly and beneficially owned by Mr. Lau. Ms. Chan Yiu Kan Katie (“Ms. Chan”), the wife of Mr. Lau, is personally interested in 4,500,000 Shares. Being spouses, Mr. Lau and Ms. Chan are deemed to be interested in their respective shareholding in the Company under the SFO.
2. Mr. Hsu Tung Sheng is an executive Director and chairman of the Company, being the Guarantor under the Supplemental Agreement.
3. Mr. Hsu Tung Chi is an executive Director and chief executive officer of the Company, being the Vendor under the Supplemental Agreement.
4. Mr. Pang Hong Tao is an executive Director.
5. Ms. Au Shui Ming, Anna is an executive Director.
6. The shareholding structure is prepared for illustration purpose only and assuming (i) after the exercise of 98,000,000 options and full conversion of 290,500,000 warrants; (ii) partial conversion of the convertible bond in the principal amount of HK\$26,903,000, of which principal amount of HK\$10,481,000 with conversion rights to convert into 111,500,000 Shares at the conversion price of HK\$0.094; (iii) and the full conversion of the First Tranche Convertible Bond and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares, with the aggregate shareholdings of the Vendor and its concert parties 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.
7. The shareholding structure is prepared for illustration purpose only, yet, the Company will not issue the conversion shares to the Vendor because subject to the conversion restrictions of the convertible bonds in the principal amount of HK\$26,903,000, the aggregate shareholding of the Vendor and its concert parties upon any conversion of the convertible bonds in the principal amount of HK\$26,903,000 will not exceed 29.99% or more of the issue share capital of the Company.

As noted from the above shareholding table of the Company, upon the issue and full conversion of the First Tranche Convertible Bonds and the Extra Convertible Bonds, there will not result in a change in control (as defined in the Code) of the Company.

## **REASONS FOR THE SUPPLEMENTAL AGREEMENT**

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 Far Glory Limited and its subsidiaries. The Group is also engaged in e-learning business.

The Far Glory Group is principally 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 on-line entertainment and media related items) in the PRC.

As stated in the announcement of the Company dated 18 February 2011, due to much longer than expected negotiation process between the Far Glory Group and the telecommunication operators as well as major record labels for the provision of licensed music content on the mobile music platform on an exclusive basis in the PRC, there has been unexpected delay in the business development of the Far Glory Group. However, as disclosed in the 2010 annual results announcement of the Company dated 29 March 2011, the recent business development of the Far Glory Group has achieved significant breakthroughs. The Far Glory Group officially signed an exclusive cooperation agreement in December 2010 with OneStop China Limited (“OSC”), the joint venture established by Universal, Warner and Sony, in relation to obtaining the exclusive license for the provision of the music licensed by the top three record labels on the music platform of China Unicom. Up to 450,000 pieces of music content are retrieved from domestic and overseas music libraries.

In February 2011, the Far Glory Group formally launched the music contents licensed by OSC on the music platform of China Unicom. By the end of March 2011, several thousands of the latest and the most popular licensed songs have been uploaded by the Far Glory Group, including songs from Chinese artists like Eason Chan (陳奕迅), Faye Wong (王菲), Khalil Fong (方大同), Jam Hsiao (蕭敬騰), Leehom Wang (王力宏) and Rainie Yang (楊丞琳) and international artists like Lady Gaga, Michael Jackson and Mariah Carey. Most of these songs are the nationwide hit of the weekly pop chart of China Unicom.

As at 28 February 2011, subscribers of China Unicom amounted to approximately 171 million, of which approximately 16.68 million subscribers are 3G services subscribers with ARPU (Average Revenue Per User) of approximately RMB124 per month. According to the 2010 annual results of China Unicom, the annual income of mobile value added services amounted to approximately RMB25.85 billion, representing an increase of 35.6% as compared with last corresponding financial year. With the above successful launch of the licensed music contents on the mobile music platform of China Unicom and in view of the significant increase of China Unicom’s mobile value added services in 2010, the Far Glory Group expects to generate incremental sales growth from the music contents.

Having considered the above mentioned progress in the business development of the Far Glory Group and the continuing increase of mobile subscribers as well as mobile value added services of China Unicom, the management of the Far Glory Group is confident that the performance of the Far Glory Group will be improved in the coming years and is also confident to achieve the New Average Guaranteed Profit.

As a result, the Directors (excluding the independent non-executive Directors whose opinion in form of a letter from the Independent Board Committee will be included in the circular relating to the Supplemental Agreement) are of the view that the terms of the Supplemental Agreement and the transactions contemplated thereunder (including the change of terms of the First Tranche Convertible Bond) are fair and reasonable and the entering into of the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole.

## **GEM LISTING RULES IMPLICATIONS**

As at the date of this announcement, the Vendor and the Guarantor are executive Directors. The Vendor is interested in 60,070,000 Shares, representing approximately 2.74% of the existing share capital of the Company. The Vendor is also interested in 15,000,000 share option and 308,424,349 convertible bonds of the Company. The Guarantor is interested in 19,000,000 Shares, representing 0.87% of the existing share capital of the Company and 15,000,000 share options of the Company. By virtue of being executive Directors of the Company, the Supplemental Agreement and the transactions contemplated thereunder (including the change of terms of the First Tranche Convertible Bond) constitute a non-exempt connected transaction of the Company under the Rule 20.17 of the GEM Listing Rules and are subject to the requirements of reporting, announcement and the approval of the Independent Shareholders at the EGM. The Vendor, the Guarantor, Mr. Lau Kim Hung (a substantial Shareholder who is interested in approximately 19.91% equity interests in Far Glory) and their respective associates have to abstain from voting in relation to the Supplemental Agreement and the transactions contemplated thereunder at the EGM.

Pursuant to Rule 34.05 of the GEM Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration take effect automatically under the existing terms of such convertible debt securities. The Company will apply to the Stock Exchange for its approval of the proposed amendments under the First Tranche Convertible Bond contemplated by the Supplemental Deed pursuant to Rule 34.05 of the GEM Listing Rules.

The Independent Board Committee will be established to advise the Independent Shareholders in respect of the terms of the Supplemental Agreement and the transactions contemplated thereunder. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, further details of the Supplemental Agreement and the Supplemental Deed, the recommendation of the Independent Board Committee, the advice of the independent financial adviser to the Independent Board Committee and Independent Shareholders, and a notice of the EGM will be despatched to the Shareholders within 15 Business Days on or before 27 April 2011 and in accordance 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:

“2011 Actual Profit”	the actual audited consolidated net profits after tax of the Far Glory Group for the financial year ending 31 December 2011
“Agreement”	the conditional agreement dated 5 May 2008 entered into among the Purchaser, the Vendor and the Guarantor in relation to the acquisition 12% shareholding interests in Far Glory Limited, the completion of which has taken place on 20 June 2008

“Average Actual Profit”	the actual average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2011 and 31 December 2012
“Board”	the board of Directors
“Bondholder(s)”	holders of the First Tranche Convertible Bond or the Extra Convertible Bond
“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
“Circular”	the circular of the Company dated 30 May 2008 in relation to the acquisition of 12% shareholding interests in Far Glory Limited
“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
“Conversion Price”	the initial conversion price of HK\$0.18 per Conversion Share or as the case may be, per Extra Conversion Share, subject to adjustments, pursuant to the terms of the First Tranche Convertible Bond and the Extra Convertible Bond
“Conversion Shares”	new Shares to be allotted and issued upon the exercise of the conversion rights in respect of the First Tranche Convertible Bond
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Supplemental Agreement, the Supplemental Deed and the transactions contemplated thereunder
“Escrowed Convertible Bonds”	collectively, the First Tranche Convertible Bond and the Second Tranche Convertible Bond
“Escrowed Convertible Bonds Certificate”	bond certificates of HK\$4,000,000 and HK\$4,400,000 respectively issued pursuant to the First Tranche Convertible Bond and the Second Tranche Convertible Bond

“Extra Convertible Bond”	a convertible bond in the principal amount of HK\$18 million (maximum amount) to be issued by the Company to the Vendor pursuant to the Agreement (as amended by the Supplemental Agreement)
“Extra Conversion Shares”	new Shares to be allotted and issued upon the exercise of the conversion rights in respect of the Extra Convertible Bond
“Far Glory”	Far Glory Limited, a company incorporated in the British Virgin Islands
“Far Glory Group”	Far Glory and its subsidiaries
“First Tranche Convertible Bond”	a convertible bond in the principal amount of HK\$4,000,000 issued on 20 June 2008 by the Company and in favour to the Vendor pursuant to the Agreement (as amended by the Supplemental Agreement)
“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
“Guarantor”	Mr. Hsu Tung Sheng
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Board comprising Mr. Lee Kun Hung, Mr. Kwok Chi Sun, Vincent and Mr. Wong Tak Shing, all of whom are independent non-executive Directors
“Independent Shareholders”	Shareholders other than the Vendor, the Guarantor and Mr. Lau Kim Hung (a substantial Shareholder who is interested in approximately 19.91% equity interests in Far Glory) and their respective associates
“New Average Guaranteed Profit”	the average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2011 and 31 December 2012 will not be less than HK\$15,000,000

“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Purchaser”	Cheer Plan Limited, a wholly-owned subsidiary of the Company
“Second Tranche Convertible Bond”	a convertible bond in the principal amount of HK\$26,903,000 issued by the Company on 16 December 2009 in favour of Daily Technology Company Limited (98% equity interests of which is owned by the Vendor) pursuant to the agreement in relation to the acquisition of 21.57% equity interests in Far Glory, of which convertible bond of principal amount of HK\$4,400,000 will be escrowed by the Purchaser pursuant to the terms of the Supplemental Agreement
“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
“Supplemental Agreement”	the conditional supplemental agreement dated 1 April 2011 (after trading hours) entered into among the Purchaser, the Vendor and the Guarantor in relation to, among others, the extension of the time for fulfilment of the agreed guaranteed profit
“Supplemental Deed”	a supplemental deed to be executed by way of deed to extend the maturity date of the First Tranche Convertible Bond to 31 December 2014
“Vendor”	Mr. Hsu Tung Chi
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By order of the Board of  
**China Digital Licensing (Group) Limited**  
**Hsu Tung Sheng**  
*Chairman*

Hong Kong, 1 April 2011

*As at the date of this announcement, the executive Directors are Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Pang Hong Tao and Ms. Au Shui Ming, Anna. 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).*