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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)

CHANGE OF DOMICILE AND REORGANISATION OF SHARE CAPITAL

Financial Adviser to the Company



INCU Corporate Finance Limited

CHANGE OF DOMICILE AND CAPITAL REORGANISATION

The Directors propose to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda; and upon the Change of Domicile becoming effective, to implement a Capital Reorganisation by way of (a) Capital Reduction which involves (i) the reduction of the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK\$0.04 on each of the issued Shares such that the nominal value of each issued Share will be reduced from HK\$0.05 to HK\$0.01; and (ii) the reduction of the authorised share capital of the Company by reducing the nominal value of all Shares from HK\$0.05 each to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$200,000,000 divided into 4,000,000,000 Shares to HK\$40,000,000 divided into 4,000,000,000 New Shares; and (b) the Increase in Authorised Share Capital, which involves the increase of authorised share capital from HK\$40,000,000 (divided into 4,000,000,000 New Shares) to HK\$200,000,000 (divided into 20,000,000,000 New Shares) by the creation of 16,000,000,000 New Shares.

The credit of HK\$90,724,041.56 arising from the Capital Reduction will be transferred to the contributed surplus account of the Company.

The Change of Domicile and Capital Reorganisation are each conditional upon fulfillment of certain conditions as more particularly described in the paragraphs headed “Conditions of the Change of Domicile” and “Conditions of the Capital Reorganisation” respectively below. The Change of Domicile is not conditional upon the Capital Reorganisation becoming effective. However, the Capital Reorganisation is conditional upon the Change of Domicile becoming effective.

Subject to the fulfilment of the conditions, the Directors expect the Change of Domicile will be completed on or after 19 December 2012 and the Capital Reorganisation will be completed until further notice upon fulfilling all the conditions of Capital Reorganisation.

Subject to the completion of the Change of Domicile, the Company proposes to adopt a new memorandum of continuance and bye-laws in compliance with Bermuda laws to replace the existing memorandum and articles of association of the Company.

WARNING

Shareholders and potential investors should also be aware of and take note that the Change of Domicile and the Capital Reorganisation involving the Capital Reduction and Increase in Authorised Share Capital are conditional upon satisfaction of the conditions precedent set out in the paragraphs headed “Conditions of the Change of Domicile” and “Conditions of the Capital Reorganisation” respectively in the section headed “Change of Domicile and Capital Reorganisation”. Therefore, the Change of Domicile and the Capital Reorganisation may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

A circular containing, amongst other things, further information on the M&A Amendment, the Change of Domicile, the Bermuda Constitutional Documents Adoption and the Capital Reorganisation and a notice to convene the EGM will be despatched to the Shareholders as soon as practicable.

CHANGE OF DOMICILE AND CAPITAL REORGANISATION

The Directors propose to change the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda, and to adopt a new memorandum of continuance and bye-laws in compliance with Bermuda law to replace the existing memorandum and articles of association of the Company (the “**Bermuda Constitutional Documents Adoption**”).

The Directors also propose to implement the Capital Reorganisation upon the Change of Domicile becoming effective in the following manner:

- (a) Capital Reduction which involves (i) the reduction of the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK\$0.04 on each of the issued Shares such that the nominal value of each issued Share will be reduced from HK\$0.05 to HK\$0.01; and (ii) the reduction of the authorised share capital of the Company by reducing the nominal value of all Shares from HK\$0.05 each to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$200,000,000 divided into 4,000,000,000 Shares to HK\$40,000,000 divided into 4,000,000,000 New Shares; and
- (b) Increase in Authorised Share Capital, which involves the increase of authorised share capital from HK\$40,000,000 (divided into 4,000,000,000 New Shares) to HK\$200,000,000 (divided into 20,000,000,000 New Shares) by the creation of 16,000,000,000 New Shares.

As at the date of this announcement, the Company has an authorised share capital of HK\$200,000,000 divided into 4,000,000,000 Shares, of which 2,268,101,039 Shares have been issued and are fully paid or credited as fully paid.

Assuming there will be no change in the issued share capital of the Company from the date of this announcement up to the date on which the Capital Reorganisation becomes effective, the share capital structure of the Company will be as follows:

	Immediately before Capital Reorganisation	Immediately after Capital Reorganisation
Authorised share capital	HK\$200,000,000.00	HK\$200,000,000.00
Nominal value	HK\$0.05 per Share	HK\$0.01 per New Share
Number of authorised shares	4,000,000,000 Shares	20,000,000,000 New Shares
Amount of issued share capital	HK\$113,405,051.95	HK\$22,681,010.39
Number of issued shares	2,268,101,039 Shares	2,268,101,039 New Shares
Amount of unissued share capital	HK\$86,594,948.05	HK\$177,318,989.61
Number of unissued shares	1,731,898,961 Shares	17,731,898,961 New Shares

The New Shares will rank pari passu in all respects among themselves and the New Shares will continue to be in the board lots of 10,000 New Shares on the business day immediately following the date of completion of the Capital Reorganisation.

The credit of HK\$90,724,041.56 arising from the Capital Reduction will be transferred to the contributed surplus account of the Company. Under Bermuda law, the amount standing to the credit of the contributed surplus account is distributable subject to satisfaction of certain solvency requirements and the Company may apply the contributed surplus in any manner not prohibited by the Companies Act and the Bye-Laws. The Board also proposes to put forward to the Shareholders to approve, as a part of the Capital Reorganisation, the Authorisation, i.e. to authorize the Directors to apply the entire amount standing to the credit of the contributed surplus account of the Company in such manner as they consider appropriate, including but not limited to setting off against the accumulated losses of the Company from time to time.

According to the audited financial statements of the Company as at 31 December 2011, the amount standing to the credit of each of the contributed surplus account and accumulated losses account of the Company were approximately HK\$3,047,000.00 and HK\$164,243,000.00 respectively.

Immediately after the Capital Reorganisation becomes effective and upon the transfer of the credit of HK\$90,724,041.56 arising from the Capital Reduction to the contributed surplus account of the Company, the amount standing to the credit of the contributed surplus account of the Company will amount to approximately HK\$93,771,041.56.

To facilitate the Change of Domicile, it is proposed that the existing memorandum and articles of association of the Company be amended by adding a new article to it (the “**M&A Amendment**”). Further details of the proposed M&A Amendment will be included in the circular to be issued by the Company as soon as practicable.

Conditions of the Change of Domicile

The Change of Domicile is conditional upon:

- (a) the passing of the necessary special resolutions by the Shareholders at the EGM to approve, amongst other things, the M&A Amendment, the Change of Domicile, the Bermuda Constitutional Documents Adoption and the Capital Reorganisation; and
- (b) compliance with the relevant legal procedures and requirements under the Cayman Islands laws, the Bermuda laws and the GEM Listing Rules to effect the M&A Amendment and the Change of Domicile.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (a) the passing of the necessary special resolutions by the Shareholders to approve, amongst other things, the M&A Amendment, the Change of Domicile, the Bermuda Constitutional Documents Adoption and the Capital Reorganisation at the EGM;

- (b) compliance with the relevant legal procedures and requirements under the Cayman Islands laws, the Bermuda laws and the GEM Listing Rules to effect the M&A Amendment and the Change of Domicile;
- (c) compliance with the relevant legal procedures and requirements under the Bermuda laws and the GEM Listing Rules to effect the Capital Reorganisation;
- (d) the Change of Domicile becoming effective;
- (e) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares; and
- (f) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Change of Domicile and the Capital Reorganisation.

The Change of Domicile is not conditional upon completion of the Capital Reorganisation. However, the Capital Reorganisation is conditional upon the Change of Domicile becoming effective.

The Capital Reorganisation will be completed upon fulfilling all the conditions of Capital Reorganisation.

Reasons for the Change of Domicile and the Capital Reorganisation and impact on the Company and the Shareholders

The Capital Reorganisation is proposed in order to provide the Company with more flexibility in possible future fund raisings. This, together with the transfer of the credit standing to the contributed surplus account arising from the Capital Reduction as set out above, will enable the Company to set off its accumulated losses and thus, facilitate the payment of dividends as and when the Directors consider it appropriate in the future.

The Directors (including the independent non-executive Directors) are of the view that the Capital Reorganisation will not have a material financial effect on the financial position of the Group. The Board also believes that on the date the Capital Reorganisation is to be effected, there is no reasonable ground for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due. Other than the expenses to be incurred in relation to the Capital Reorganisation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the interests or rights of the Shareholders.

After making enquiries with the Legal Advisers, it is noted that if the Company proceeds with the Capital Reduction in the Cayman Islands, the sanction by the Grand Court of the Cayman Islands will be required, and the Company expects that it cannot obtain such sanction in a commercially expedient time frame. In addition, the Capital Reduction may be effected under the Bermuda law without the sanction of the Grand Court of the Cayman Islands or approval of the Supreme Court of Bermuda by way of a change of domicile of the Company from the

Cayman Islands to Bermuda through deregistration in the Cayman Islands and continuation in Bermuda. The Board thus considers that it would save the Company's time and costs for carrying out the Capital Reorganisation in Bermuda by first implementing the Change of Domicile.

The Change of Domicile will not alter the underlying assets, business operations, management or financial position of the Group nor the proportionate equity interests of the Shareholders. The continuation of the Company in Bermuda does not create a new legal entity or prejudice or affect the continuity of the Company. The head office of the Group will continue to be in Hong Kong. Moreover, the Change of Domicile will not involve the formation of a new holding company, the withdrawal of listing of existing securities, any issue of new securities, any transfer of assets of the Company or any change in the existing shareholding structure of the Company. Implementation of the Change of Domicile will not affect the listing status of the Shares on GEM.

Application for listing of New Shares

Application will be made to the Stock Exchange for granting the listing of, and permission to deal in, the New Shares and underlying New Shares to be allotted and issued upon the exercising or conversion (as the case may be) of the Share Options, the Warrants and the Convertible Bonds arising from the Capital Reorganisation and all necessary arrangements will be made for the New Shares to be admitted into the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

EXPECTED TIMETABLE

Set out below is the expected timetable for the implementation of the Capital Reorganisation, which is subject to change and any changes will be announced in a separate announcement by the Company as and when appropriate.

Despatch of the circular regarding, among other matters, the Change of Domicile and the Capital Reorganisation	8 November 2012
Publication of the notice of EGM	8 November 2012
Latest time for lodging the form of proxy for the EGM	10:30 a.m., 3 December 2012
EGM	10:30 a.m., 5 December 2012

The following events are conditional on the fulfilment of the conditions for the implementation of the Change of Domicile and the Capital Reorganisation:

Effective date for the Change of Domicile* on or after 19 December 2012

Effective date of the Capital Reorganisation* on or after 9 January 2013

All times and dates in this announcement refer to Hong Kong local times and dates. Dates or deadlines specified in expected timetable above depends on the results of the EGM and are therefore for indicative purpose only. An announcement will be made regarding any changes to the expected timetable as and when appropriate.

* *The expected effective date for the Change of Domicile and the Capital Reorganisation are subject to the relevant conditions precedent (including Shareholders' approval) being fulfilled.*

FREE EXCHANGE OF SHARE CERTIFICATES

Subject to the Capital Reorganisation becoming effective, Shareholders may submit Existing Share Certificates for the Shares to the Company's share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, in exchange, at the expense of the Company, for New Share Certificates for New Shares during the time to be specified under the circular. Thereafter, Existing Share Certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate issued or cancelled, whichever is higher.

Nevertheless, Existing Share Certificates for the Shares will not be acceptable for trading purposes but will continue to be good evidence of legal title and may be exchanged for New Share Certificates for New Shares at any time.

WARNING

Shareholders and potential investors should also be aware of and take note that the Change of Domicile, the Capital Reorganisation involving the Capital Reduction and Increase in Authorised Share Capital are conditional upon satisfaction of the conditions precedent set out in the paragraphs headed "Conditions of the Change of Domicile" and "Conditions of the Capital Reorganisation" in the section headed "Change of Domicile and Capital Reorganisation". Therefore, the Change of Domicile and the Capital Reorganisation may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

The M&A Amendment, the Change of Domicile, the Bermuda Constitutional Documents Adoption and the Capital Reorganisation will be conditional upon the passing by the Shareholders of special resolutions at the EGM.

The EGM will be held to consider and, if thought fit, approve the resolutions in respect of the M&A Amendment, the Change of Domicile, the Bermuda Constitutional Documents Adoption and the Capital Reorganisation (involving the Capital Reduction and Increase in Authorised Share Capital). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders will be required to abstain from voting on the resolutions to be proposed at the EGM.

A circular containing, amongst other things, further information on the M&A Amendment, the Change of Domicile, the Bermuda Constitutional Documents Adoption, the Capital Reorganisation, and a notice to convene the EGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

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

“Authorisation”	the proposed authorisation to the Directors to apply the entire amount standing to the credit of the contributed surplus account of the Company in such manner as they consider appropriate, including but not limited to setting off against the accumulated losses of the Company from time to time
“Bermuda Registrar”	the Registrar of Companies in Bermuda
“Board”	the board of directors of the Company
“Capital Reduction”	the proposed (i) reduction of the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK\$0.04 on each of the issued Shares such that the nominal value of each issued Share will be reduced from HK\$0.05 to HK\$0.01; and (ii) the reduction of the authorised share capital of the Company by reducing the nominal value of all Shares from HK\$0.05 each to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$200,000,000 divided into 4,000,000,000 Shares to HK\$40,000,000 divided into 4,000,000,000 New Shares

“Capital Reorganisation”	the capital reorganisation of the Company involving the Capital Reduction and the Increase in Authorised Share Capital
“Cayman Registrar”	the Registrar of Companies in the Cayman Islands
“Change of Domicile”	the proposed change of the domicile of the Company from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda
“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Company”	China Digital Licensing (Group) Limited, a company incorporated in the Cayman Islands with limited liability and the Shares are listed on GEM
“Convertible Bonds”	collectively (i) the convertible bond of HK\$4,000,000 conferring rights to convert a total of 22,222,222 Shares on the basis of a conversion price of HK\$0.18 per Share (subject to adjustment); and (ii) the convertible bond of HK\$23,903,000 conferring rights to convert a total of 254,287,234 Shares on the basis of a conversion price of HK\$0.094 per Share (subject to adjustment)
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Change of Domicile and the Capital Reorganisation
“Existing Share Certificates”	certificates for the existing Shares
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Grand Court”	the Grand Court of the Cayman Islands

“Increase in Authorised Share Capital”	increase of authorised share capital from HK\$40,000,000 (divided into 4,000,000,000 New Shares) to HK\$200,000,000 (divided into 20,000,000,000 New Shares) by the creation of 16,000,000,000 New Shares
“Legal Advisers”	Appleby, the Company’s legal advisers as to the laws of the Cayman Islands and Bermuda
“New Share Certificates”	certificates for the New Shares
“New Shares”	shares of HK\$0.01 each in the share capital of the Company upon the Capital Reorganisation taking effect
“Share Option Scheme”	the share option scheme of the Company adopted on 24 January 2003
“Share Options”	options granted under the Share Option Scheme
“Shareholders”	holders of Shares
“Shares”	existing shares of HK\$0.05 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme Court”	the Supreme Court of Bermuda
“Warrants”	an aggregate of 74,936,000 non-listed warrants issued by the Company on 2 September 2010, which entitles the holder thereof to subscribe an aggregate of 275,500,000 Shares at a subscription price of HK\$0.272 (subject to adjustments) at any time during a period of 36 months commencing from the date of issue of the warrants
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China

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

Hong Kong, 24 October 2012

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. Wong Tak Shing, 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 or deceptive; (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 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.