

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Digital Licensing (Group) Limited** (the “Company”), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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 and continued in Bermuda with limited liability)
(Stock Code: 8175)

**(1) DISCLOSEABLE TRANSACTION
IN RESPECT OF
THE ACQUISITION OF 80% EQUITY INTERESTS IN
CHINA DIGITAL ENTERTAINMENT COMPANY LIMITED
(2) ADOPTION OF NEW SHARE OPTION SCHEME
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

Financial Adviser to the Company



INCU Corporate Finance Limited

A notice convening a special general meeting of the Company (the “SGM”) to be held at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong, on Wednesday, 27 March 2013 at 3:00 p.m. is set out on pages 39 to 41 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company’s branch share registrar in Hong Kong, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the SGM or any adjournment thereof. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.chinadigitallic.com). The completion and delivery of a form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof in person should you so wish.

8 March 2013

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“1st Guarantor”	Mr. Feng Ke (馮軻), interested in the entire equity interests of the 1st Vendor
“1st Vendor”	China Digital Entertainment (Holdings) Limited (formerly known as Starry Honour Limited), a company established in the British Virgin Islands with limited liability, one of the Vendors and is the beneficial owner of 525 Sale Shares
“2nd Guarantor”	Mr. Yu Ka Kai (于家啟), interested in the entire equity interests of the 5th Vendor
“2nd Vendor”	Guo Chao (郭超), one of the Vendors and is the beneficial owner of 50 Sale Shares
“3rd Vendor”	Zhang Jun (張軍), one of the Vendors and is the beneficial owner of 50 Sale Shares
“4th Vendor”	Fang Zhi (方志), one of the Vendors and is the beneficial owner of 50 Sale Shares
“5th Vendor”	Richwheel Investments Limited, a company established in the British Virgin Islands with limited liabilities, one of the Vendors and is the beneficial owner of 50 Sale Shares
“6th Vendor”	Lee Chien Chung (李建宗), one of the Vendors and is the beneficial owner of 40 Sale Shares
“7th Vendor”	Yang Shian Der (楊先德), one of the Vendors and is the beneficial owner of 35 Sale Shares
“Acquisition”	the proposed acquisition of 80% of the entire equity interests of the Target Company through the purchase of the Sale Shares and the Sale Loan by the Purchaser as contemplated under the Agreement
“Actual Net Profit”	the actual audited consolidated net profit after taxation but before extraordinary items of the Target Company, based on the financial statements prepared in accordance with Hong Kong Financial Reporting Standards for the financial year ending 31 December 2013

DEFINITIONS

“Agreement”	the conditional agreement dated 15 January 2013 entered into among the Purchaser, the Vendors and the Guarantors in relation to the Acquisition
“associates”	has the same meaning ascribed to such term under the GEM Listing Rules
“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
“Bye-laws”	the bye-laws of the Company
“Company”	China Digital Licensing (Group) Limited, a company incorporated in the Cayman Islands and continued in Bermuda 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 person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Consideration”	the consideration for the Acquisition, being HK\$64,944,000
“Consideration Shares”	the Shares to be issued and allotted to the Vendors at the Issue Price in satisfaction of the Consideration payable by the Purchaser under the Agreement, being in aggregate 405,900,000 new Shares
“Director(s)”	the director(s) of the Company from time to time

DEFINITIONS

“Eligible Participants” or “Participants”	(i) any employees (including, without limitation, executive Directors) of the Company and/or any of its Subsidiaries; (ii) any non-executive Directors (including, without limitation, independent non-executive Directors) of the Company and/or any of its Subsidiaries; (iii) any consultants, suppliers or customers of the Company and/or any of its Subsidiaries; (iv) any employee (whether full-time or part-time and including directors) of any entity in which the Group holds any equity interest; and/or (v) any person who, in the sole discretion of the Board, has contributed or may contribute to the Group eligible for Options under this Share Option Scheme
“Existing Share Option Scheme”	the existing share option scheme of the Company adopted by the Company on 24 January 2003
“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
“Guarantors”	collectively the 1st Guarantor and the 2nd Guarantor
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Company”	China Digital Entertainment Company Limited (中國數字娛樂有限公司), a company incorporated in Hong Kong with limited liability
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules)
“Issue Price”	HK\$0.16 per Consideration Share
“Latest Practicable Date”	5 March 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“Long Stop Date”	30 June 2013 (or such later date as the Purchaser and the Vendors may agree), being the last day for the fulfillment or waiver of the conditions precedent of the Agreement
“New Share Option Scheme”	the share option scheme to be proposed to be adopted by the Company at the SGM with effect from 27 March 2013, the principal terms of which are set out in the Appendix to this circular
“Notice”	the notice of the Annual General Meeting
“Option(s)”	option(s) granted to the Participant(s) entitling them to subscribe for Shares pursuant to the Existing Share Option Scheme or pursuant to the New Share Option Scheme (as the case maybe)
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Profit Guarantee”	the profit guarantee that the audited consolidated net profit after taxation but before extraordinary items of the Target Company for the financial year ending 31 December 2013 will not be less than HK\$8,200,000
“Purchaser”	Silver Season Investments Limited, a company incorporated in British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company
“Sale Loan”	any and all obligations, indebtedness or liabilities due by the Target Group to the Vendors on Completion, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion, of which will be assigned by the Vendors to the Purchaser upon Completion by way of loan assignment agreement
“Sale Shares”	800 ordinary shares of the Target Company, representing 80% of the issued share capital of the Target Company as at the date of the Agreement

DEFINITIONS

“Scheme Mandate Limit”	the number of Shares which may be issued upon exercise of all Options of the Company which shall not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the Existing Share Option Scheme or the New Share Option Scheme or of the refreshment of such limit
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held and convened for the Shareholders to consider and if thought fit, to approve the issue and allotment of the Consideration Shares and the adoption of the New Share Option Scheme
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	a company which is for the time being and from time to time a subsidiary of the Company (Chapter 32 of the Laws of Hong Kong), whether incorporated in Hong Kong, the Bermuda or elsewhere
“Target Company”	China Digital Entertainment Company Limited, a company incorporated in the British Virgin Islands with limited liability, 80% of the entire issued shares of which are owned by the Vendors
“Target Group”	the Target Company and its subsidiaries, which include the Hong Kong Company
“Vendors”	collectively, the 1st Vendor, the 2nd Vendor, the 3rd Vendor, the 4th Vendor, the 5th Vendor, the 6th Vendor and the 7th Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



China Digital Licensing (Group) Limited
中國數碼版權(集團)有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8175)

Executive Directors:

Mr. Hsu Tung Sheng
Mr. Hsu Tung Chi
Mr. Pang Hong Tao
Ms. Au Shui Ming, Anna

Registered office:

Canon's Court,
22 Victoria Street,
Hamilton HM 12,
Bermuda

Independent non-executive Directors:

Mr. Wong Tak Shing
Mr. Lee Kun Hung
Mr. Kwok Chi Sun, Vincent

*Head Office and Principal place
of business in Hong Kong:*

Room 2801A, Tower 1,
Lippo Centre,
89 Queensway, Hong Kong

8 March 2013

To the Shareholders

Dear Sir or Madam,

**(1) DISCLOSEABLE TRANSACTION
IN RESPECT OF
THE ACQUISITION OF 80% EQUITY INTERESTS IN
CHINA DIGITAL ENTERTAINMENT COMPANY LIMITED
(2) ADOPTION OF NEW SHARE OPTION SCHEME
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 15 January 2013 in relation to, among others, the discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules in respect of the Acquisition of the Sale Shares and the Sale Loan at a total Consideration of HK\$64,944,000. The Consideration shall be satisfied by the Purchaser by procuring the Company to allot and issue an aggregate of 405,900,000 Consideration Shares at the Issue Price and credited as fully paid upon Completion to the Vendors. The issue and allotment of the Consideration Shares under the specific mandate shall be approved at the SGM.

LETTER FROM THE BOARD

The Existing Share Option Scheme has expired on 23 January 2013, the Board proposed the adoption of the New Share Option Scheme.

The purpose of this circular is to provide you with the information relating to the resolutions to be proposed at the SGM for (i) the specific mandate to issue and allot the Consideration Shares under the Acquisition; and (ii) adoption of the New Share Option Scheme, and to give you the notice of SGM in order to enable you to make an informed decision on whether to vote for or against the resolutions to be proposed.

THE ACQUISITION

Reference is made to the announcement of the Company dated 18 January 2012 in relation to, among other matters, the investment of 20% equity interests in the Target Company by the Group.

On 15 January 2013 (after trading hours), the Purchaser entered into the Agreement with the Vendors and the Guarantors, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares and the Sale Loan at a total consideration of HK\$64,944,000.

THE AGREEMENT

Date:	15 January 2013 (after trading hours)
Parties:	
Purchaser:	the Purchaser, a wholly-owned subsidiary of the Company
Vendors:	the Vendors
Guarantors:	the Guarantors

The Vendors are individual investors or investment holding companies.

The 1st Guarantor and the 2nd Guarantor are the ultimate beneficial owners of the 1st Vendor and the 5th Vendor respectively.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors, the Guarantors and their respective associates are Independent Third Parties.

LETTER FROM THE BOARD

Assets to be acquired

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell, the Sale Shares and the Sale Loan.

The Sale Shares represent 80% of the entire issued share capital of the Target Company. As at the Latest Practicable Date, the Target Company is beneficially owned as to 20% by the Purchaser and as to 80% by the Vendors (as to 52.5%, 5%, 5%, 5%, 5%, 4% and 3.5% of the equity interests of the Target Company are beneficially owned by the 1st Vendor, the 2nd Vendor, the 3rd Vendor, the 4th Vendor, the 5th Vendor, the 6th Vendor and the 7th Vendor respectively), while the Hong Kong Company is wholly and beneficially owned by the Target Company. Therefore, upon Completion, the Target Group will become indirect wholly-owned subsidiaries of the Company.

As at the date of the Agreement and the Latest Practicable Date, there was shareholders' loan of approximately HK\$1.6 million due to the Vendors from the Target Group and the Sale Loan will be assigned to the Purchaser upon Completion.

Consideration

The total Consideration of HK\$64,944,000 shall be settled by the Purchaser by procuring the Company to allot and issue an aggregate of 405,900,000 Consideration Shares to the Vendors at the Issue Price and credited as fully paid upon Completion, in which 266,371,875 Shares, 25,368,750 Shares, 25,368,750 Shares, 25,368,750 Shares, 25,368,750 Shares, 20,295,000 Shares and 17,758,125 Shares will be issued to the 1st Vendor, the 2nd Vendor, the 3rd Vendor, the 4th Vendor, the 5th Vendor, the 6th Vendor and the 7th Vendor respectively.

The total Consideration was agreed between the Purchaser and the Vendors after arm's length negotiations with reference to the Profit Guarantee; and the prevailing price-earnings multiple of listed companies in Hong Kong and the PRC which engaged in similar business of distribution of movies, TV program and music content, organization of music concerts or other performances and shows which range from approximately 1.73 times to approximately 38.86 times (the "Comparables PE").

LETTER FROM THE BOARD

Details of the Comparables PE, in which the Board has made reference to, are summarised in the following table:

Code and place of listing	Company name	Business	Price-earnings ratio as at 15 January 2013
9 (HK)	Cheung Wo International Holdings Ltd.	Film production and related business, the film processing, rental of property and property development.	2.72
198 (HK)	SMI Corporation Ltd.	Theater operation includes box office income, advertising income, facilities rental income, membership service income and sales of food and beverage, trading of marketable securities, investments in production and distribution of films.	13.85
391 (HK)	Mei Ah Entertainment Group Ltd.	Television operations, film exhibition, film rights licensing and sub-licensing, sales and distribution of films and programs in audio visual product format, artiste management and theatre operations.	n/a
491 (HK)	See Corporation Ltd.	Film and TV programme production, event production, artiste and model management, music production, a pay TV operation and investment in securities	4.95
511 (HK)	Television Broadcasts Ltd.	Terrestrial television broadcasting, together with programme production and other TV-related activities.	16.35
571 (HK)	eSun Holdings Ltd.	Development, operation & invest in media, entertainment; production & distribution of music, TV programs, film & video format products; provision of advertising agency services; sale of cosmetic products, property development & investment.	1.73

LETTER FROM THE BOARD

Code and place of listing	Company name	Business	Price- earnings ratio as at 15 January 2013
764 (HK)	Eternity Investment Ltd.	Distribution of films; sub-licensing of film rights; sales of financial assets; leasing of rental properties; provision of management services to concierge department of gaming promoters appointed by Macau casinos.	n/a
1046 (HK)	Universe International Holdings Ltd.	Distribution of films in various videogram formats, film exhibition, licensing and sub-licensing of film rights and leasing of investment properties.	n/a
1060 (HK)	ChinaVision Media Group Ltd.	Production & distribution of film rights; mobile game & TV subscription; mobile value-added services; advertising agency & newspaper and magazine distribution; other agency services; securities trading & investments.	n/a
1132 (HK)	Orange Sky Golden Harvest Entertainment (Holdings) Ltd.	Worldwide film and video distribution, film exhibition in Hong Kong, Mainland China, Taiwan and Singapore and films and television programmes production, provision of advertising and consulting services in Mainland China.	13.75
2366 (HK)	Qin Jia Yuan Media Services Co. Ltd.	Provision of media services including TV program related services in the PRC, TV advertising services, outdoor advertising services and other public relations services.	2.04
8039 (HK)	Pegasus Entertainment Holdings Ltd.	Production and distribution of films in Hong Kong, the PRC and South East Asia.	n/a

LETTER FROM THE BOARD

Code and place of listing	Company name	Business	Price- earnings ratio as at 15 January 2013
8075 (HK)	Media Asia Group Holdings Ltd.	Event organisation and event management; investment, production, sale and distribution of films; development and licensing of software and technology for use in connection with the provision of value added telecommunications services.	n/a
8078 (HK)	China 3D Digital Entertainment Ltd.	Artiste management services, film and television programme production, distribution and licensing.	n/a
8130 (HK)	Zhi Cheng Holdings Ltd.	Development and provision of medical information digitalization system, property investment, provision of consultancy services, advertisement and media related services and provision of project management services.	n/a
8172 (HK)	China Media and Films Holdings Ltd.	Infrared consultancy services; artist management and film production.	n/a
8220 (HK)	Bingo Group Holdings Ltd.	Sales and trading of coal and crude oil, filmed entertainment, new media exploitations and licensing businesses, cinema investment and management.	n/a
8228 (HK)	National Arts Holdings Limited	Film production and distribution, provision of artistes management, advertising and promotion services, provision of studio, theme park and hotels, digital solution services and investment in securities.	n/a
300027 (Shenzhen)	Huayi Brothers Media Corp.	Produces and distributes movies and dramas, artists management services.	38.86

LETTER FROM THE BOARD

Code and place of listing	Company name	Business	Price- earnings ratio as at 15 January 2013
300251 (Shenzhen)	Beijing Enlight Media Co. Ltd.	Invest, produces and distributes television programs, films and teleplays. The company's major products include TV shows, TV entertainment programs, films and drama series.	36.91
300291 (Shenzhen)	Beijing HualuBaina Film & TV Co. Ltd.	Invest in, produces, distributes films and TV dramas, and engages in film derivatives businesses. The company's main products include TV dramas and films, product placements, film advertisements, television and film books, and other related products.	33.58
300336 (Shenzhen)	Shanghai New Culture Media Group Co. Ltd.	Invest, produces, distributes and engages in the derivative business of TV dramas. The company's main products include TV series and films.	31.23
Average			17.82

Sources: Hong Kong listed companies' information are sourced from the Stock Exchange website, Price-Earnings ratio are sourced from AASTocks as at the date of the Agreement; other references are sourced from Bloomberg

The above Comparables PE table range from approximately 1.73 times to approximately 38.86 times and with an average of 17.82 times. The Consideration represents approximately 9.9 price-earnings multiple of the Profit Guarantee (as disclosed in the following section). The price-earnings ratio of 9.9 times falls within the comparable price earning range at the lower end and represented a discount of 44% to the average comparable price-earnings ratio. The Board considered that the 9.9 times price-earnings ratios have taken into account the Target Group is an early start up company. Based on the range and the average from the Comparables PE table above, the Directors (including non-executive Directors) considered that the price earnings ratio of 9.9 is fair and reasonable.

Having considered (i) the business development and prospects of the Target Group in the medium to long term; (ii) the Profit Guarantee; (iii) the Consideration will be satisfied in full by the issue and allotment of the Consideration Shares at Completion without initial deposit and future cash payment; (iv) the lock up arrangement of the Consideration Shares for 6 months from the date of issue; and (v) the escrow arrangement of the Escrowed Shares, the Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable and the terms and

LETTER FROM THE BOARD

conditions of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

On 18 January 2012, the Company announced the investment of the 20% equity interests in the Target Company at a consideration of HK\$400,000 (the “**Previous Acquisition**”). Taking into account (i) the investment amount of HK\$400,000 is an initial investment as a paid up capital for the initial set-up and operation of the Target Company; (ii) the Acquisition of a controlling stake and all remaining interest in the Target Group will maximize the benefit to be derived from the Target Group in future; (iii) the business connections and experience of the 1st Guarantor will benefit the future development of the Target Group in obtaining more domestic content for overseas distribution; (iv) there is Profit Guarantee given by the Vendors in the Acquisition, shows the confidence level on the business prospects of the Target Group; and (v) the latest business development and the future business prospects of the Target Group is more solid than that the time at the Previous Acquisition, the Directors consider the premium as compared to the consideration under the Previous Acquisition is justifiable.

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

- (1) all necessary consents and approvals required to be obtained on the part of the Target Group in respect of the sale of Sale Shares and the Sale Loan having been obtained;
- (2) all necessary consents and approvals required to be obtained on the part of the Purchaser and the Company in respect of the acquisition of Sale Shares and the Sale Loan having been obtained;
- (3) there does not exist any matter, fact or circumstance which constitutes, or may constitute a breach of the warranties provided by the Vendors or the terms of the Agreement;
- (4) the obtaining of an audited financial statement of the Target Group for the financial year ended 31 December 2012;
- (5) the Stock Exchange granting the listing approval to deal in the Consideration Shares;
- (6) the passing of the necessary resolution(s) approving the specific mandate for the issue and allotment of the Consideration Shares; and
- (7) the Purchaser being satisfied with the results of the due diligence review to be conducted on the Target Group.

LETTER FROM THE BOARD

Conditions (3) and (7) above are waivable by the Purchaser under the Agreement while all the other conditions are incapable of being waived. The Purchaser has no current intention to waive such conditions as at the Latest Practicable Date.

Completion

Completion shall take place within three (3) Business Days after all the conditions of the Agreement have been fulfilled or waived or such later date as may be agreed between the Vendors and the Purchaser.

Upon Completion, the Company will be interested in the entire equity interests in the Target Company and the Target Group will be accounted for as indirect wholly-owned subsidiaries of the Company.

Long Stop Date

If any of the conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before the Long Stop Date, the Agreement shall cease and terminate and neither party shall have any obligations towards each other save and except for any antecedent breach of the Agreement.

Guarantors Guarantee

In consideration of the 1st Vendor and the 5th Vendor agreeing to enter into of the Agreement, the 1st Guarantor and the 2nd Guarantor agree to guarantee the performance of the 1st Vendor and 5th Vendor respectively held under the Agreement in accordance with the terms and conditions of the Agreement.

PROFIT GUARANTEE

Pursuant to the Agreement, each of the Vendors have covenanted and guaranteed to the Purchaser that the audited consolidated net profit after taxation but before extraordinary items of the Target Group, based on the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and to be audited by an accounting firm approved by the Purchaser for the financial year ending 31 December 2013 shall not be less than HK\$8,200,000.

In the event the Actual Net Profit is less than the Profit Guarantee, the Vendors shall compensate the Purchaser on a dollar for dollar basis of an amount (the "Shortfall") equivalent to:

$$\text{Shortfall} = (\text{Profit Guarantee} - \text{Actual Net Profit}) \times 80\%$$

For the avoidance of doubt, if there is loss for the Target Group for the financial year ending 31 December 2013, the profit shall be treated as zero and the Shortfall shall be equal:

$$\text{Shortfall} = \text{Profit Guarantee} \times 80\%$$

LETTER FROM THE BOARD

As a security for the Profit Guarantee, 26,780,000 Consideration Shares (the “Escrowed Shares”), being part of the Consideration Shares to be issued to the 1st Vendor upon Completion, will be escrowed by the Company or its nominee. If the Profit Guarantee is fulfilled, the Escrowed Shares will be returned to the 1st Vendor. In the event that the Profit Guarantee is not fulfilled, and the Vendors fail to compensate the Purchaser of the Shortfall in full in cash, the Company or its nominee is entitled to sell or otherwise dispose all or part of the Escrowed Shares, the proceeds of which will be used to set off against the Shortfall and the remaining balance of the Escrowed Shares (if any) will be returned to the 1st Vendor. In the event that the proceeds arising from the sale of the Escrowed Shares are not sufficient to set off against the Shortfall in full, each of the Vendors shall be personally liable, to any damages and/or losses which the Purchaser may suffer in connection with the non-fulfillment of the Profit Guarantee under the Agreement in portion to their respective interests in the Sale Shares.

The Profit Guarantee was arrived at after arm’s length negotiation between the Purchaser and the Vendors with reference to the business prospects and business development of the Target Group.

As advised by the Vendors, the level of Profit Guarantee was estimated by the Vendors with reference to (i) the percentage of revenue and profit sharing, (ii) with the final stage of negotiation with major TV program producer and broadcaster, it is expected that the Target Group will obtain the authorization for the distribution of considerable amount of content; (iii) several overseas potential customers in the Taiwan, Macao, Korean and the North America have shown great interest in the content from the domestic TV program producer and broadcaster. The Vendors considered that the Profit Guarantee is achievable, fair and reasonable.

Having considered the business model of the Target Group and the existing cooperation or potential cooperation with the major domestic TV program producer and broadcaster, the business connection of the 1st Guarantor in the industry, the Board concurred with the assessment of the Profit Guarantee as provided by the Vendors.

CONSIDERATION SHARES

The Consideration Shares will be allotted and issued at the Issue Price, 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 rights 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 34.69% to the closing price of HK\$0.245 per Share as quoted on the Stock Exchange on 15 January 2013, being the date of the Agreement;
- (ii) a discount of approximately 1.72% to the average of the closing prices of HK\$0.1628 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Agreement;

LETTER FROM THE BOARD

- (iii) a premium of approximately 10.19% over the average of the closing prices of HK\$0.1452 per Share as quoted on the Stock Exchange for the ten trading days immediately prior to the date of the Agreement;
- (iv) a premium of approximately 18.17% over the average of the closing prices of HK\$0.1354 per Share as quoted on the Stock Exchange for the twenty trading days immediately prior to the date of the Agreement;
- (v) a premium of approximately 19.67% over the average of the closing prices of HK\$0.1337 per Share as quoted on the Stock Exchange for the thirty trading days immediately prior to the date of the Agreement;
- (vi) a discount of approximately 54.29% to the closing price of HK\$0.35 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 178.26% over the net asset value per Share of HK\$0.0575 based on the audited consolidated financial statements of the Group as at 31 December 2011 divided by 2,253,101,039 Shares as at 31 December 2011.

The Issue Price was determined by the Board after taking into consideration of the prevailing Share prices at the time of entering into of the Agreement. Having taken account: (1) the premium of the Issue Price as compared to the average closing price of 10, 20 and 30 trading days immediately prior to the date of the Agreement as discussed above; (2) the premium of the Issue Price of 178% over the net asset value per Share; and (3) the 6 months lock-up arrangement of the Consideration Shares, the Directors considered the Issue Price is fair and reasonable.

The Consideration Shares represent approximately 16.43% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 14.11% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM and will be allotted and issued on the date of Completion.

Lock-up

Pursuant to the Agreement, each of the Vendors undertook to, and covenanted with the Company that it will not, within the period commencing on the date of Completion and ending on the date falling six (6) months after Completion, offer, lend, transfer, sell, pledge or otherwise dispose of or create any encumbrance or other rights in respect of the Consideration Shares or any interests therein or grant any options or rights in respect of more than such amount of Consideration Shares without prior approval from the Purchaser.

APPLICATION FOR LISTING

Application has been made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

LETTER FROM THE BOARD

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and the allotment and issue of the Consideration Shares (assuming no Share to be issued and allotted from the Latest Practicable Date to Completion).

	As at the Latest Practicable Date		Immediately after Completion and the allotment and issue of the Consideration Shares	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
Substantial Shareholders				
Golden Mabile Culture Media Company (<i>Note 1</i>)	497,698,238	20.15	497,698,238	17.30
Directors of the Company				
Mr. Hsu Tung Chi (<i>Note 2</i>)	19,000,000	0.77	19,000,000	0.66
Daily Technology Company Limited (<i>Note 3</i>)	72,984,893	2.95	72,984,893	2.54
Sub-total	<u>91,984,893</u>	<u>3.72</u>	<u>91,984,893</u>	<u>3.20</u>
Ms. Au Shui Ming, Anna	54,500,000	2.21	54,500,000	1.90
Mr. Pang Hong Tao	42,800,000	1.73	42,800,000	1.49
Mr. Hsu Tung Sheng	19,000,000	0.77	19,000,000	0.66
The Vendors				
1st Vendor	–	–	266,371,875	9.26
2nd Vendor	–	–	25,368,750	0.88
3rd Vendor	–	–	25,368,750	0.88
4th Vendor	–	–	25,368,750	0.88
5th Vendor	–	–	25,368,750	0.88
6th Vendor	–	–	20,295,000	0.71
7th Vendor	–	–	17,758,125	0.62
Sub-total	<u>–</u>	<u>–</u>	<u>405,900,000</u>	<u>14.11</u>
Public Shareholders	<u>1,764,245,565</u>	<u>71.42</u>	<u>1,764,245,565</u>	<u>61.34</u>
Total	<u><u>2,470,228,696</u></u>	<u><u>100.00</u></u>	<u><u>2,876,128,696</u></u>	<u><u>100.00</u></u>

LETTER FROM THE BOARD

Notes:

1. Golden Mabile Culture Media Company is a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Ma Bole.
2. Mr. Hsu Tung Chi is the executive director and chief executive officer of the Company.
3. Daily Technology Company Limited is beneficially owned as to 98% by Mr. Hsu Tung Chi. Mr. Hsu Tung Chi is deemed to be interested in the Shares in which Daily Technology Company Limited is interested in.

INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the date of the Agreement, the Target Company is owned as to 20% by the Purchaser and 80% by the Vendors. The Hong Kong Company is a company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, the Hong Kong Company is wholly and beneficially owned by the Target Company. The Target Group will commence its principal business in the promotion, sales and distribution of movie and music licensed content worldwide and the organization of music concerts, programs and related services.

As advised by the Vendors, following the initial set up of the Target Group in January 2012, relying on the broad business connection, market experience and artiste management experience of the 1st Guarantor, the Target Group has entered into the content license agreement for the overseas distribution of various films and programs produced in the PRC. The Target Group is also in final stage of negotiation with one of the major domestic TV program producer and broadcaster in the PRC for the distribution of their content outside the PRC.

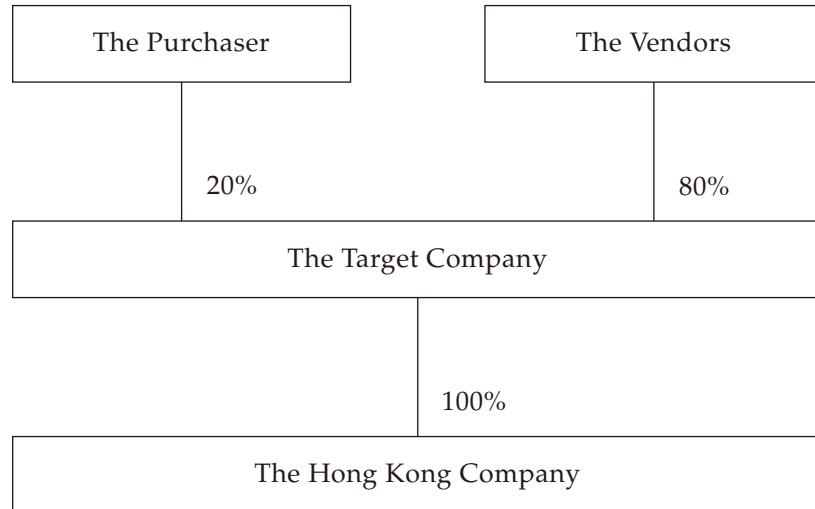
The Target Group has entered into agreement with a Taiwan company for the distribution in Taiwan of the domestic film and TV licensed content produced by PRC companies. The Target Group is also in active negotiation for organizing music concerts in the PRC for popular overseas singers.

As at the Latest Practicable Date, the Target Group is managed by the 1st Guarantor and Mr. Hsu Tung Chi, who both hold directorships in the Target Group with Mr. Hsu Tung Chi as the existing board representative of the Group in the Target Group. Given that (i) the Target Group will engage in the promotion, sales and distribution of movie and music licensed content while the Company is engaged in the distribution of copyright-protected items which is of the similar services nature; and (ii) the Group will retain the 1st Guarantor and the board representative, Mr. Hsu Tung Chi as the directors of the Target Group after Completion, the Directors consider that the Company has the sufficient management expertise in this area of licensed content distribution business. As to the Target Group's business in the organization of concerts, programs and related services, the Company will continue to retain the 1st Guarantor as the director of the Target Group after Completion.

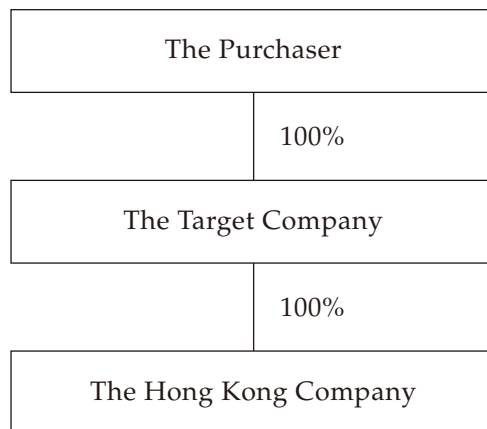
LETTER FROM THE BOARD

Target Group structure

Set out below is the group structure of the Target Group immediately before Completion:



Set out below is the group structure of the Target Group immediately upon Completion:



LETTER FROM THE BOARD

Financial information of the Target Group

Set out below is the unaudited consolidated financial information of the Target Group based on its consolidated management account prepared in accordance with the Hong Kong accounting standards:

	From 12 April 2011 (date of incorporation of the Target Company) to 31 December 2011 (unaudited) <i>HK\$</i>	For the year ended 31 December 2012 (unaudited) <i>HK\$</i>
Turnover	0	0
Net loss before taxation	0	1,328,167
Net loss after taxation	0	1,328,167
	As at 31 December 2011 (unaudited) <i>HK\$</i>	As at 31 December 2012 (unaudited) <i>HK\$</i>
Net liabilities	1	1,320,367

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of copyright management solution and the related consultancy services and the distribution of copyright-protected items. The Group is also 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 Hong Kong and Macau.

As at the date of the Agreement, the Group is interested in 20% equity interest in the Target Company. At the start-up of the Target Group, the Group intends to hold the interest in the Target Group as an investment only and look for cooperation opportunities with the Target Group and/or such other business opportunities to be derived from such investment. During the year of 2012, the Target Group is able to link up licensed owners/providers and overseas content users and is in final negotiation with a major domestic TV program maker and broadcaster for distribution of content outside PRC. The acquisition of the remaining controlling interest in the Target Group is in line with the principal business of the Group in the distribution of copyright-protected items. Currently the Group distributes music licensed content from overseas content providers for use in the PRC only, the Acquisition would allow the Group to obtain a broader and more variety of domestic licensed content, such as movies and TV programs content. On the other hand, the Acquisition enables the Group to diversify into content distribution business in the overseas market. The Acquisition will benefit the Group by providing a more diversified source of income. In addition, the diversification into the business of

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organizing music concerts will also bring new source of income to the Group. Therefore, the Board is optimistic on the business prospects of the Target Group and consider the Acquisition would further enhance the profitability of the Group, and hence the Directors are of the view that the acquisition of the controlling interest in the Target Group will maximize the future contribution to the Group and that the Acquisition is in the interest of the Group and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

Since the percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition are greater than 5% but less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules and are subject to reporting and announcement requirements but exempt from Shareholders' approval requirement.

The issue and allotment of the Consideration Shares under the specific mandate shall be approved at the SGM in accordance with the requirements of the GEM Listing Rules.

ADOPTION OF THE NEW SHARE OPTION SCHEME

In light of that the Existing Share Option Scheme has been expired on 23 January 2013, the Board proposes to adopt the New Share Option Scheme to enable the continuity of Share Option Scheme of the Company.

Existing Share Option Scheme

The Existing Share Option Scheme has been adopted by the Company on 24 January 2003 under which the Directors may at their discretion grant Options to eligible participants to subscribe for Shares in the Company subject to the terms and conditions stipulated in the Existing Share Option Scheme. The Existing Share Option Scheme is valid and effective for a period of 10 years commencing from 24 January 2003 and accordingly the Existing Share Option Scheme has expired on 23 January 2013.

Upon expiry of the Existing Share Option Scheme, no further Options can be granted thereunder but the provisions of the Existing Share Option Scheme shall remain in all other respects in full force and effect in respect of any Options granted but not yet exercised prior to the expiry of the Existing Share Option Scheme.

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As at the Latest Practicable Date, 98,000,000 Options were granted under the Existing Share Option Scheme were outstanding, details of which are as follows:

Categories of grantees	Outstanding number of Options as at the Latest Practicable Date	Exercise price HK\$	Date of grant	Exercisable period
Directors				
Mr. Hsu Tung Sheng	15,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Mr. Hsu Tung Chi	15,000,000	0.475	16/12/2010	16/12/2010- 15/12/2013
Mr. Pang Hong Tao	8,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Ms. Au Shui Ming, Anna	8,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Employees	48,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Employees	4,000,000	0.475	16/12/2010	16/12/2010- 15/12/2013
	<hr style="width: 100%; border: 0.5px solid black;"/> 98,000,000 <hr style="width: 100%; border: 1.5px solid black;"/>			

New Share Option Scheme

The major difference between the terms of the Existing Share Option Scheme and the New Share Option Scheme are the definition of Eligible Persons and the period of acceptance. Under the Existing Share Option Scheme, eligible person is defined as any full-time employee of the Company or of any subsidiary (excluding any employee of the Company or any subsidiary who is contracted to work for less than forty hours a week (excluding meal breaks) in that capacity), any executive director and non-director of the Company or of any subsidiary and their respective associates, whereas the definition of Eligible Participants under the New Share Option Scheme has been extended to include consultants and suppliers.

LETTER FROM THE BOARD

Another difference is the period of acceptance of an offer of Options. Under the Existing Share Option Scheme, the offer of Options is available for acceptance for 28 days whereas under the terms of the New Share Option Scheme, the period shortens to 7 days (or such longer period as the Board may agree).

As provided under the New Share Option Scheme, the purpose of the New Share Option Scheme is to enable the Company to continue to grant Options to the Eligible Participants who, in the discretion of the Board, have made or may make contribution to the Group in order to recognize and motivate the employee of the Group and to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interests in attaining the long term business objectives of the Group.

The Company considers that the extension of the scope of the Eligible Participants under the New Share Option Scheme is in the interests of the Company and the Shareholders as a whole as it allows additional flexibility of the Company to grant Options to those who have made or may make contributions to the Group. The Board will exercise its discretion to grant Options on a reasonable basis to meet the purpose of the New Share Option Scheme to be adopted.

The rules of the New Share Option Scheme provide that the Company may specify the Participants to whom Options shall be granted, the number of Shares subject to each Option and the date on which the Options shall be granted. The basis for determining the subscription price is also specified precisely in the rules of the New Share Option Scheme. There is no performance target specified in the New Share Option Scheme although the Board is entitled to set any performance target at the time of grant of the Options. The Directors consider that the aforesaid criteria and rules will serve to preserve the value of the Company and encourage Participant to acquire proprietary interests in the Company.

Subject to the approval of the New Share Option Scheme by the Shareholders, a resolution will be proposed at the SGM for the Board to grant options under the New Share Option Scheme and any other schemes for the subscription of not more than 10% of the entire issued capital of the Company (excluding, for this purpose, Options which have lapsed in accordance with the terms any other share option scheme of the Group) as at the date of the passing of the relevant resolution.

LETTER FROM THE BOARD

The maximum number of Shares to be issued upon exercise of all outstanding Options granted and yet to be exercised under the Existing Share Option Scheme, the New Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

As at the Latest Practicable Date, the total issued share capital of the Company is HK\$24,702,286.96 divided into 2,470,228,696 Shares. Assuming that there is no change in the issued share capital between the period from the Latest Practicable Date to the date of the adoption of the New Share Option Scheme, the number of Shares which may fall to be allotted and issued upon exercise in full of the Options to be granted New Share Option Scheme would be 247,022,869, representing approximately 10% of the Shares in issue as at the Latest Practicable Date. This maximum amount of Options to be grant together with the 98,000,000 Options granted under the Existing Share Option Scheme in aggregate is within the overall limit of 30% prescribed under Rule 23.03(3) of the GEM Listing Rules.

The Directors consider that it is not appropriate to state the value of all Options that can be granted pursuant to the New Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the Option value have not been determined. Such variables include but not limited to the exercise price, exercise period and lock-up period (if any). The Directors believe that any calculation of the value of the Options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to Shareholders.

With respect to the operation of the New Share Option Scheme, the Company will, where applicable, comply with the relevant requirement, under Chapter 23 of the GEM Listing Rules.

There is no specified minimum period under the New Share Option Scheme for which an Option must be held or the performance target which must be achieved before an Option can be exercised under the terms of the New Share Option Scheme. However, the New Share Option Scheme expressly provides that, the Board may, with respect to each grant of Options, determine the exercise price (being not less than the minimum price specified in the GEM Listing Rules), the conditions precedent and any performance targets that apply to the Options., as such, the New Share Option Scheme will provide the Board with more flexibility in determining the applicable performance targets and any other conditions to which the specific grant of Options may be subject on a case-by-case basis. The exercise price for Shares under the New Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a Business Day; (ii) the average closing price of the Shares as stated in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the date of grant; and (iii) the nominal value of the Share on the date of grant.

LETTER FROM THE BOARD

Conditions precedent of the adoption of the New Share Option Scheme

The proposed adoption of the New Share Option Scheme is conditional upon:

- (a) the Listing Committee of the Stock Exchange granting approval for the listing of and permission to deal in any Shares which may fall to be issued and allotted by the Company pursuant to the exercise of Options in accordance with the terms and conditions of the New Share Option Scheme; and
- (b) the passing of the necessary resolution to approve and adopt the New Share Option Scheme in the SGM.

An application will be made to the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares which may fall to be issued upon the exercise of the Options which may be granted under the New Share Option Scheme.

None of the Directors is trustee of the New Share Option Scheme or has direct interest in the trustee.

A summary of the principal terms of the New Share Option Scheme which is proposed to be approved and adopted by the Company at the SGM is set out in the appendix to this circular on pages 28 to 38. A copy of the rules of the New Share Option Scheme is available for inspection at the head office and principal place of business of the Company in Hong Kong at Room 2801A, Tower 1 Lippo Centre, 89 Queensway, Hong Kong during normal business hours from the date hereof up to and including the date of the SGM.

WARNING

Shareholders and potential investors should be aware of and take note that the Acquisition and the adoption of the New Share Option Scheme is conditional upon satisfaction of the conditions precedent set out in the paragraphs headed "Conditions precedent of the Agreement" and "Conditions precedent of the adoption of the New Share Option Scheme" respectively, and therefore 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.

LETTER FROM THE BOARD

SGM

The issue and allotment of the Consideration Shares shall be under the specific mandate to be sought at the SGM. The adoption of the New Share Option Scheme is conditional upon the passing of the necessary resolution to approve and adopt the New Share Option Scheme in the SGM.

The SGM will be held at 3:00 p.m. on Wednesday, 27 March 2013 at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong, the notice of which is set out on pages 39 to 41 of this circular, for the Shareholders to consider and, if thought fit, to approve the resolutions in respect of the issue and allotment of the Consideration Shares and the adoption of the New Share Option Scheme.

In compliance with the GEM Listing Rules, the resolutions will be voted on by way of a poll at the SGM. To the best of the Director's knowledge, information and belief having made all reasonable enquiries, no Shareholders have a material interest in the Acquisition and the adoption of the New Share Option Scheme and no Shareholders are required to abstain from voting on the resolutions to be proposed at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be delivered to the offices of the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding the SGM or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the Acquisition and the transactions contemplated thereunder, including but not limited to the proposed issue and allotment of the Consideration Shares and the adoption of the New Share Option Scheme are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommended you to vote in favour of the resolutions to be proposed in the SGM.

COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors, controlling Shareholder or substantial Shareholders or any of their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or has, any other conflict of interest which any such person has or may have within the Group.

RESPONSIBILITY STATEMENT

This circular, 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: (1) the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement in this circular misleading.

Yours faithfully
For and on behalf of the Board
China Digital Licensing (Group) Limited
Mr. Hsu Tung Sheng
Chairman

This appendix sets out further information of the New Share Option Scheme and also summarises the rules of the New Share Option Scheme but does not form part of nor was it intended to be, part of the New Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the New Share Option Scheme:

NEW SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the New Share Option Scheme proposed to be approved by a resolution of the Shareholders at the SGM, notice of which is set out on pages 39 to 41 of this circular:

(a) Purpose of the New Share Option Scheme

The purpose of the New Share Option Scheme is to enable the Company to grant Options to the Participants in order to recognize and motivate the contribution of the employees of the Group and to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economics interest in attaining the long term business objectives of the Group.

(b) Administration of the New Share Option Scheme

The New Share Option Scheme shall be subject to the administration by the Board which may include a duly authorised committee thereof and the decision of the Board shall be final, conclusive and binding on all parties.

(c) Grant and acceptance of Options

Subject to the terms of the New Share Option Scheme, the Board may, in its absolute discretion, invite any Participant to take up Options to subscribe for Shares at a price calculated in accordance with paragraph (d) below.

An offer of the grant of an Option shall be made to the Participants in writing (and unless so made shall be invalid) in such form as the Board may from time to time determine and shall remain open for acceptance by the Participant concerned for a period of seven (7) days (or such longer period as the Board may approve) from the date upon which it is made provided that no such offer shall be open for acceptance after the earlier of the 10th anniversary of the adoption date of the New Share Option Scheme or the termination of the New Share Option Scheme or the Participant to whom such offer is made has ceased to be a Participant.

A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an Option. An Option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the Option duly signed by the Participant together with the said consideration of HK\$1.00 is received by the Company.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in such number of Shares as represents a board lot for the time being for the purpose of trading on GEM or an integral multiple thereof.

(d) Exercise of Options and Price of Shares

An Option may be exercised in whole or in part by the grantee giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate of the Company's auditors or independent financial advisers, the Company shall allot and issue the relevant Shares to the grantee (or his legal personal representative(s)) credited as fully paid.

Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the bye-laws of the Company for the time being in force and will rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which the Option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an Option shall not carry voting rights until the name of the Grantee has been duly entered onto the register of members of the Company as the holder thereof.

The exercise price for Shares under the New Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a Business Day; (ii) the average closing price of the Shares as stated in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the date of grant; and (iii) the nominal value of the Share on the date of grant.

- (e) *Maximum number of Shares available for issue*
- (i) Subject to the GEM Listing Rules, the overall limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Share Option Scheme and any other scheme of the Company must not, in aggregate, exceed 30% of the Shares in issue from time to time (the “**Overall Limit**”). No Options shall be granted under any share option schemes of the Company (including the New Share Option Scheme) if this will result in the Overall Limit being exceeded.
 - (ii) Subject to the Overall Limit, the total number of Shares which may be issued upon exercise of all Options to be granted under the New Share Option Scheme and any other share option schemes of the Company adopted by the Group must not, in aggregate, exceed 10% of the Shares in issue as at the date of the approval of the New Share Option Scheme (the “**Scheme Mandate Limit**”), unless Shareholders’ approval has been obtained pursuant to sub-paragraphs (iii) and (iv) below. Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.
 - (iii) Subject to the Overall Limit, the Company may refresh the Scheme Mandate Limit at any time subject to approval of the Shareholders in general meeting, provided that the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date of the aforesaid Shareholders’ approval (the “**Refreshed Limit**”). Options previously granted under the New Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised Options) will not be counted for the purpose of calculating the Refreshed Limit. The Company must send a circular to the Shareholders containing such information as required under the GEM Listing Rules.

- (iv) The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Share Option Scheme and any other scheme of the Company must not exceed 30% of the total issued Shares from time to time. Subject to the Overall Limit, the Company may also seek separate approval of the Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit provided that the Options in excess of the Scheme Mandate Limit are granted only to the Participants specifically identified by the Company before such approval is sought. The Company must send a circular to the Shareholders containing a generic description of the specified Participants, the number and terms of Options to be granted, the purpose of granting Options to the specified Participants with an explanation as to how the terms of the Options serve such purpose and such other information as required under the GEM Listing Rules.

(f) Grant of Options to connected persons or any of their associates

Any grant of Options to a connected person or its associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). Where Options are proposed to be granted to a connected person who is also a substantial shareholder of the Company or an independent non-executive Director or their respective associates and if such grant would result in the total number of Shares issued and to be issued upon exercise of the Options granted and to be granted (including Options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant to such person representing in aggregate over 0.1 % of the total issued Shares and having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million, then the proposed grant must be subject to the approval of Shareholders taken on a poll in a general meeting. All connected persons of the Company must abstain from voting at such general meeting (except where any connected person intends to vote against the proposed grant provided that his intention to do so has been stated in the shareholders' circular to be issued as stated below).

A circular must be prepared by the Company explaining the proposed grant, disclosing (i) the number and terms of the Options to be granted, (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a grantee) on whether or not to vote in favour of the proposed grant, (iii) information relating to any Directors who are trustees of the scheme or have a direct or indirect interest in the trustees.

Any change in the terms of Options granted to a connected person or its associates must be approved by Shareholders in a general meeting.

(g) *Maximum entitlement of each Participant*

The total number of Shares issued and to be issued upon exercise of the options granted to each Participant or grantee (including exercised and outstanding options) in any twelve (12)-month period up to the date of grant shall not exceed 1% of the Shares in issue at the date of grant (the “**Individual Limit**”). Where it is proposed that any offer is to be made to a Participant (or where approximate, an existing grantee) which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve (12)-month period up to and including the relevant date of grant to exceed his, her or its Individual Limit, such offer and any acceptance thereof must be conditional upon Shareholders’ approval in general meeting with such Participant (or where appropriate, an existing grantee) and his, her or its associates abstaining from voting. The Company must send a circular to the Shareholders disclosing the identity of the Participant or grantee, the number and terms of options to be granted (and options previously granted) to such Participant, the information required under the Listing Rules. The number and terms (including the subscription price) of options to be granted to such Participant must be fixed before the date on which Shareholders’ approval is sought and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(h) *Time of Exercise of Options*

Subject to the terms of the New Share Option Scheme, an Option may be exercised in whole or in part at any time during the period to be determined and identified by the Board to each grantee at the time of making an offer for the grant of an Option, but in any event no later than 10 years from the date of grant but subject to the early termination of the New Share Option Scheme (the “**Option Period**”).

There is no specified minimum period under the New Share Option Scheme for which an Option must be held or the performance target which must be achieved before an Option can be exercised under the terms of the New Share Option Scheme.

(i) *Restrictions on the time of grant of Options*

The Company may not grant any Options after inside information has come to its knowledge until it has announced the information. In particular, it may not grant any Option during the period commencing one month immediately before the earlier of:

- (1) the date of the Board meeting (as such date is first notified to the Stock Exchange under Rule 17.48 of the GEM Listing Rules) for approving the Company's results for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and
- (2) the deadline for the Company to announce its results for any year, half year or quarter-year period under Rule 18.49, 18.78 or 18.79 of the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement.

(j) *Rights are personal to grantees*

An Option is personal to the grantee and shall not be assignable or transferrable. An Option shall not be sold, transferred, charged, mortgaged, encumbered or created with any interest in favour of any third party.

Mere holders of the Options are not entitled to voting, dividend, transfer and other rights of the holders of the Shares, including those arising on a liquidation of the Company, save as otherwise provided in the New Share Option Scheme or under the relevant laws or the memorandum of association and bye-laws of the Company in effect from time to time.

(k) *Rights on cessation of employment by dismissal*

If the grantee of an Option is an employee and ceases to be an employee on one or more of the grounds that he or she has been guilty of persistent or serious misconduct, bankruptcy, insolvency, composition with his or her creditors generally or conviction of any criminal offence or other grounds on which an employer would be entitled to terminate his or her employment pursuant to any applicable law, his or her Option (to the extent not already exercised) will lapse on the date of cessation of his or her employment.

(l) *Rights on death*

If the grantee of an Option is an employee and ceases to be an employee by reason of his or her death before exercising the Options in full and none of the events referred to in paragraph (k) above as ground for termination of his or her Options arises, his or her personal representative(s) may exercise the Option (to the extent not already exercised) within a period of twelve (12) months following the date of death (or such longer period as the Board may determine), failing which it will lapse.

(m) *Rights on cessation of employment for other reasons*

If the grantee of an Option who is an employee and ceases to be an Participant for any other reason he or she may exercise the Options (to the extent not already exercised) in whole or in part within a period of three (3) months following the date of such cessation or such other date as the Board may determine, which date shall be the last actual working with the Company or its Subsidiary, whether salary is paid in lieu of notice or not. If any of the events referred to in paragraph (n) to (p) below occurs during such period, he or she may exercise the Option pursuant to paragraphs (n) to (p) respectively.

(n) *Rights on a general offer*

In the event of a general offer being made to all Shareholders (or all such holders other than the offeror and/or person controlled by the offeror and/or any person acting in concert (as defined in The Hong Kong Codes on Takeovers and Mergers) with the offeror) and such offer becomes or is declared unconditional during the Option Period of the relevant Option, the grantee (or his personal representative(s)) shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within thereafter and up to the close of such offer or the record date for entitlements under scheme of arrangements as the case may be.

(o) *Rights on winding up*

In the event a notice is given by the Company to its members to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as it despatches such notice to each member of the Company give notice thereof to all grantees and any grantee (or his or her personal representative(s) may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price in respect of the relevant Option (such notice to be received by the Company no later than five (5) Business Days prior to the propose general meeting)) exercise the Option (to the extent not already exercised) either to its full extent or to the extent that he or she may specify in his or her notice and the Company shall as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue such number of Shares to the grantee credited as fully paid.

(p) Rights on reconstruction, compromise or arrangement

If a compromise or arrangement between the Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice to the grantee on the same date as it despatches the notice to each member or creditor of the Company to consider such a compromise or arrangement, and thereupon the grantee (or his or her personal representative(s)) may by notice in writing to the Company accompanied by a remittance of the full amount of the subscription price in respect of which the notice is given (such notice to be received by the Company no later than five (5) Business Days prior to the proposed meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed general meeting allot and issue such number of Shares to the grantee credited as fully paid.

(q) Cancellation of Options

The Board may at any time cancel any Option granted but not exercised if the relevant grantee so agrees. Any cancellation of Options granted but not exercised and the issuance of new Options to the same grantee may only be made under the New Share Option Scheme with available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit referred to in paragraph (e) (ii) above. Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

(r) Effect of alterations to share capital

In the event of any alteration in the capital structure of the Company by way of capitalisation of profits or reserves, rights issue or other offer of securities to Shareholders, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction while any Option remains exercisable), such corresponding alterations (if any) will be made in (i) the numbers or nominal amount of Shares subject to any Option so far as such Option remains unexercised and/or (ii) the subscription price per Share and/or (iii) the maximum number of Shares available for subscription and/or; (iv) the method of exercise of the Option as the auditors or independent financial adviser for the time being of the Company shall at the request of the Company or any grantee certify the adjustment on the basis that the grantee shall have the same proportion of the issued share capital of the Company to which he was entitled before such alteration and the aggregate subscription price payable by the grantee on the full exercise of any Option shall remain as nearly as possible the same as (but not greater than) it was before such event. No such alterations shall be made the effect of which would be to enable a Share to be issue at less than its nominal value.

Save in the case of a capitalisation issue, the auditors or independent financial advisers for the time being of the Company must confirm to the Directors in writing that such adjustment(s) satisfy the aforesaid requirements.

(s) *Ranking of Shares*

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the bye-laws of the Company for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date on which the Option is exercised and accordingly will entitle the holders of Shares to participate in all dividends or other distributions paid or made on or after the date on which the Option is exercised other than any dividends or other distributions previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date of allotment.

(t) *Duration of the New Share Option Scheme*

The New Share Option Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the tenth anniversary thereof, after such period no further Options will be granted but the provisions of the New Share Option Scheme shall remain in full force and effect in respect of any Options granted before its expiry or termination but not yet exercised.

(u) *Alterations to the terms of the New Share Option Scheme*

- (i) The provisions relating to the matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of Participants without the prior approval of Shareholders in a general meeting.
- (ii) Any alterations to the terms and conditions of the New Share Option Scheme which are of a material nature or any change to the terms of Options granted must be approved by Shareholders, except where the alterations take effect automatically under the existing terms of the New Share Option Scheme.
- (iii) The amended terms of the New Share Option Scheme or the Options must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.
- (iv) Any change to the authority of the Directors or the administrator of the New Share Option Scheme in relation to any alteration to the terms of the New Share Option Scheme must be approved by Shareholders in a general meeting.

(v) *Conditions of the New Share Option Scheme*

The New Share Option Scheme is conditional upon:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in any Shares to be issued by the Company pursuant to the exercise of Options in accordance with the terms and conditions of the New Share Option Scheme; and
- (ii) the passing of the necessary resolution to approve and adopt the New Share Option Scheme in general meeting.

(w) *Lapse of Options*

An Option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraphs (k) to (p);
- (iii) the date on which the Directors shall exercise the Company's right to cancel the Option by reason of a breach of paragraph (j) by the grantee of the Option in respect of that or any other Option; and
- (iv) the date on which the Option is cancelled in paragraph (q); and
- (v) the date of the commencement of the winding-up of the Company.

(x) *Termination*

The Company by ordinary resolution in general meeting may at any time terminate the operation of the New Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the New Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Options granted prior to such termination.

Details of the Options granted, including Options exercised or outstanding, under the New Share Option Scheme shall be disclosed in the circular to Shareholders seeking approval of any subsequent share option scheme to be established after such termination.

(y) *Miscellaneous*

The terms of the New Share Option Scheme (and any other schemes adopted by the Company from time to time) shall be in accordance with the new requirements set out in Chapter 23 of the GEM Listing Rules.

The Company will comply with the relevant statutory requirements and the GEM Listing Rules from time to time in force on a continuing basis in respect of the New Share Option Scheme and any other schemes of the Company.

Any dispute arising in connection with the number of Shares of an Option and any of the matters referred to in paragraph (r) above shall be referred to the decision of the auditors or the independent financial advisers of the Company who shall act as experts and not as arbitrators and whose decision, in the absence of manifest error, be final, conclusive and binding.



China Digital Licensing (Group) Limited
中國數碼版權(集團)有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8175)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (“**Meeting**”) of China Digital Licensing (Group) Limited (the “**Company**”) will be held at 3:00 p.m., on 27 March 2013 at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong for the purpose of considering and, if thought fit, passing with or without modifications the following resolutions which will be proposed as resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting listing of, and permission to deal in, the Consideration Shares (as defined below), the issue and allotment of the 405,900,000 new ordinary shares of HK\$0.01 each in the share capital of the Company (the “**Consideration Shares**”) to the Vendors and/or their nominee(s) at the issue price of HK\$0.16 per Consideration Share as contemplated under the conditional agreement dated 15 January 2013 (the “**Agreement**”) entered into among Silver Season Investments Limited, a wholly owned subsidiary of the Company, as purchaser (the “**Purchaser**”), the Vendors (as defined in the circular of the Company dated 8 March 2013) and the Guarantors (as defined in the circular of the Company dated 8 March 2013) in relation to, among others, the sale and purchase of 80% of the issued share capital of China Digital Entertainment Company Limited (the “**Target Company**”) and any and all obligations, indebtedness or liabilities due by the Target Company and/or its subsidiaries to the Vendors (as defined in the circular of the Company dated 8 March 2013) for a total consideration of HK\$64,944,000 (a copy of which is marked “A” and produced to the Meeting and signed by the chairman of the Meeting for identification purpose) and the transactions contemplated under the Agreement be and are hereby approved, confirmed and ratified and any one or more director(s) of the Company (the “**Director(s)**”) be and is/are hereby authorised to do all such acts, to take all step, and things, to take all step, and execute all such documents which he/she/they consider(s) necessary, desirable or expedient for the implementation of and giving effect to the allotment and issue of the Consideration Shares and the transactions contemplated thereunder; and

NOTICE OF SGM

- (b) the Director be and is hereby granted with a specific mandate to allot and issue the Consideration Shares.”
2. **“THAT** subject to and conditional upon the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the ordinary shares of HK\$0.01 each in the capital of the Company to be issued pursuant to the exercise of options which may be granted under the new share option scheme of the Company to be adopted with effect from the date of this Meeting (the **“New Share Option Scheme”**, the rules of which are summarized in the circular of the Company dated 8 March 2013 and contained in the document marked **“B”** produced to the meeting and initialed by the chairman of the Meeting for identification purpose only), the New Share Option Scheme together with its rules be and are hereby approved, confirmed and adopted and that the Directors be and they are hereby authorized to:
- (i) administer the New Share Option Scheme under which the options will be granted to the Eligible Participants under the New Share Option Scheme to subscribe for Shares;
 - (ii) modify and/or amend the rules of the New Share Option Scheme from time to time subject to the provisions of such rules;
 - (iii) issue and allot from time to time such number of Shares as may be required to be issued pursuant to the exercise of the options under the New Share Option Scheme; and
 - (iv) make application at the appropriate time to the Stock Exchange, and any other stock exchange upon which the Shares may for the time being be listed, for listing of, and permission to deal in, the Shares which may thereafter from time to time be issued and allotted pursuant to the exercise of the options under the New Share Option Scheme.”

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

Hong Kong, 8 March 2013

Registered office:
Canon’s Court,
22 Victoria Street,
Hamilton HM 12,
Bermuda

*Head office and principal place of
business in Hong Kong:*
Room 2801A, Tower 1,
Lippo Centre,
89 Queensway, Hong Kong

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Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the Meeting is enclosed herewith.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney, duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. To be valid, the instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's branch share registrar, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no less than 48 hours before the time for holding the Meeting or any adjournment thereof.
5. Delivery of an instrument appointing a proxy will not preclude a member from attending and voting in person at the Meeting if the member so desires and in such event, the instrument appointing the proxy shall be deemed to be revoked.
6. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto to if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.