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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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, bank manager, solicitors, 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 and accompanying 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any losses howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**China Digital Licensing (Group) Limited**

**中國數碼版權(集團)有限公司**

*(Incorporated in Cayman Islands with limited liability)*

(Stock Code: 8175)

**MAJOR DISPOSAL AND CONNECTED TRANSACTION  
INVOLVING DISPOSAL OF THE ENTIRE EQUITY INTEREST IN  
KANHAN TECHNOLOGIES INC.**

**Financial adviser to the Company**



**INCU Corporate Finance Limited**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**

**VEDA | CAPITAL**  
**智略資本**

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A letter from the independent board committee (the “**IBC**”) of the board of directors of the Company is set out on page 13 of this circular. A letter from Veda Capital Limited, the independent financial adviser, containing its advice to the IBC and the independent shareholders of the Company is set out on pages 14 to 22 of this circular.

A notice convening a special general meeting (the “**EGM**”) of the Company to be held on Monday, 19 January 2009 at 11:00 a.m. at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong is set out on pages 33 and 34 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company 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 no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

31 December 2008

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## CHARACTERISTICS OF GEM

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**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 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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## DEFINITION

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:*

“Articles of Association”	the articles of association of the Company
“associates”	has the meaning associated thereto in the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	China Digital Licensing (Group) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Completion”	the completion of the Disposal in accordance with the terms and conditions of the Disposal Agreement
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Consideration”	the consideration of HK\$1,000,000 for the sale and purchase of 116,225 KanHan Inc. Shares and the Sale Loan pursuant to the Disposal Agreement
“Deposit”	the deposit of HK\$200,000 payable by the Purchaser to the Company under the Disposal Agreement
“Directors”	the directors of the Company, including the independent non-executive directors
“Disposal”	the proposed disposal of the entire issued share capital of KanHan Inc. and the Sale Loan under the Disposal Agreement
“Disposal Agreement”	the conditional agreement dated 5 December 2008 and entered into between the Company and Mr. Mo in relation to the sale and purchase of 116,225 KanHan Inc. Shares and the Sale Loan
“EGM”	the extraordinary general meeting of the Company to be convened to consider and if thought fit, approve the Disposal Agreement and the transaction contemplated thereunder
“GEM”	the Growth Enterprise Market of the Stock Exchange

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## DEFINITION

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“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries (which shall exclude, where the context requires, the KanHan Inc. Group after completion of the Disposal Agreement)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IBC”	the independent board committee of the Board comprising all the three independent non-executive Directors to advise the Independent Shareholders as to the terms of the Disposal Agreement and how to vote, taking into account the recommendations of Veda Capital
“Veda Capital”	Veda Capital Limited, the independent financial adviser to advise the IBC and the Independent Shareholders whether the terms of the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole
“Independent Shareholders”	the Shareholders other than Mr. Mo and his associates or others who are interested in the Disposal
“KanHan Inc.”	KanHan Technologies Inc., a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
“KanHan Inc. Group”	KanHan Inc., together with the subsidiaries of KanHan Inc.
“KanHan Inc. Share(s)”	share(s) of US\$1 each in the share capital of KanHan Inc.
“Latest Practicable Date”	29 December 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Mr. Mo”	Mr. Mo Wai Ming, Lawrence, an executive Director, a director of KanHan Inc. and each of the subsidiaries of KanHan Inc.
“PRC”	the People’s Republic of China, which for the purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan unless the context otherwise requires
“Purchaser”	Mr. Mo

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## DEFINITION

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“Sale Loan”	all obligations, liabilities and debts owing or incurred by the KanHan Inc. to the Company on Completion, which amounted to approximately HK\$22.82 million as at the date of the Disposal Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong)
“Shareholders”	holders of the issued Shares
“Share(s)”	Share(s) of HK\$0.05 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

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LETTER FROM THE BOARD

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**China Digital Licensing (Group) Limited**

**中國數碼版權(集團)有限公司**

*(Incorporated in Cayman Islands with limited liability)*

(Stock Code: 8175)

*Executive Directors:*

Mr. Pang Hong Tao, Peter  
Mr. Mo Wai Ming, Lawrence  
Ms. Au Shui Ming, Anna

*Non-executive Director:*

Mr. Ma She Shing, Albert

*Independent non-executive Directors:*

Mr. Hsu William Shiu Foo  
Mr. Lee Kun Hung  
Mr. Kwok Chi Sun

*Registered office:*

Caledonian Bank & Trust Limited  
Caledonian House  
P.O. Box 1043  
George Town  
Grand Cayman  
Cayman Islands

*Head office and principal place  
of business in Hong Kong:*

Unit 1601, Ruttonjee House  
Ruttonjee Centre  
11 Duddell Street  
Central, Hong Kong

31 December 2008

*To the Shareholders*

Dear Sir or Madam,

**MAJOR DISPOSAL AND CONNECTED TRANSACTION  
INVOLVING DISPOSAL OF THE ENTIRE EQUITY INTEREST IN  
KANHAN TECHNOLOGIES INC.**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 10 December 2008 in which the Board announced that on 5 December 2008 (after trading hours), the Company entered into the Disposal Agreement with the Purchaser for the Disposal of the entire equity interest in KanHan Technologies Inc. at a consideration of HK\$1,000,000.

The entering into of the Disposal Agreement constitutes a major and connected transaction on the part of the Company under Chapters 19 and 20 of the GEM Listing Rules.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with further details regarding the Disposal in accordance with the Listing Rules.

### THE DISPOSAL AGREEMENT

Date: 5 December 2008 (after trading hours)

Parties: (1) Vendor : the Company

(2) Purchaser : Mr. Mo

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

### Assets to be disposed of

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

### Consideration

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

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

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

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



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## LETTER FROM THE BOARD

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### Conditions

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

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

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

As at the Latest Practicable Date, none of the conditions set out above have been fulfilled.

### Completion

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

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

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## LETTER FROM THE BOARD

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### Basis of the Consideration

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

### INFORMATION ON THE KANHAN INC. GROUP

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

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

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

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## LETTER FROM THE BOARD

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

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

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

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

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

### FINANCIAL EFFECT OF THE PROPOSED DISPOSAL

It is estimated that, upon Completion, the Group will record a gain on disposal of approximately HK\$4,381,000. Such gain is estimated based on the difference between (i) the Consideration and (ii) HK\$3,381,000, being the net liabilities of KanHan Inc. Group of approximately HK\$26,355,000 million less (a) the Sale Loan of approximately HK\$22,816,000 as at the date of the Disposal Agreement and (b) the exchange reserves of approximately HK\$158,000. Such gain will be reflected in the consolidated profit and loss account of the Group for the year ending 31 December 2009. The final amount of the actual gain or loss as a result of the Disposal will be determined upon Completion.

The total assets and the total liabilities of the Group will both be reduced by approximately HK\$2,692,000 (being the total assets of KanHan Inc. Group) and HK\$6,231,000 (being the total liabilities of KanHan Inc. Group of HK\$29,047,000 less the Sale loan) respectively as a result of the Disposal.

### PROSPECTS OF THE GROUP

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

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## LETTER FROM THE BOARD

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After the Disposal, the Group will be principally engaged in the provision and development of on-line education business. Such business commenced operation in January 2008 and subsequently acquired by the Group in June 2008.

### **On-line education business**

The Directors are of the view that the on-line education business is of high profitability potential. As a newly established business, the Group has already established close relationship with reputable multi-national educational institutions and teaching materials publisher, namely, Cambridge University Press, British Broadcasting Corporation and the Commercial Press (H.K.) Ltd, for the provision of teaching materials and contents on the Group's education websites and currently over 200,000 students in approximately 280 primary and secondary schools in Hong Kong and Macau are the subscribers of the on-line education programs of the Group. The Group is in the course of negotiation with an additional 150 to 200 schools to subscribe for the on-line education programs in the coming second semester.

By applying current business model of on-line education business, to expand and develop its business in the PRC and has already entered into co-operation agreement with China Network Communications Group Corporation in Jiangsu. The Group also entered into a service agreement with the Education and Youth Affairs Bureau in Macao through which to provide on-line education programs to all the primary and secondary schools in Macau. Moreover, a nationwide English storytelling contest in the PRC with Cambridge University Press and other partners in the PRC will be organized by the Group. Such contest will serve as a serious of promotional activities through which the on-line education business will be further developed in the PRC. It is necessary to point out that the online education business only commenced in January 2008 and there are still rooms for further participation by the other primary and secondary schools in Hong Kong, Macau and the PRC. The Directors believe that there are still substantial growth potential in the business.

The Directors consider that with the improving living standards, high emphasis on education for the next generation, increasing demand for high quality on-line education programs and the accomplished internet network in the PRC, the on-line education business is of high profitability potential in the PRC. With the Group being able to deploy all its resources on such business after the Disposal, the Directors are of the view that the on-line education business will generate high profitability to the Group and the Shareholders in the future.

### **Investment in copyright management and digital licensing business**

During the year, the Group acquired 20.56% shareholding interest of Far Glory Limited. Far Glory Limited and its subsidiaries ("Far Glory Group") are principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

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## LETTER FROM THE BOARD

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According to the Ministry of Information of the PRC, there are 548 million mobile phone users in the PRC by the end of 2007, representing an annual growth rate of 18.7%, the mobile phone penetration rate is 41.6%. The internet users in the PRC have reached 210 million by the end of 2007, representing an annual growth rate of 53.3%. According to other researches conducted by the China Internet Network Information Center, approximately 180 million internet users are using the internet for music entertainment purpose.

In view of the above and the increasing emphasis on anti-privacy placed by the PRC Government following the entry into the World Trade Organization in 2001, the Directors are of the view that the provision of legal and copyright protected items in particular, the on-line entertainment and media related items, are in high demand in telecommunication industry, music and entertainment industry as well as media industry in the PRC. Moreover, the related copyright management and digital content licensing solutions are particularly vital to the practitioners of the aforesaid industries. In view of the established leading status of e-License Inc. (Japan) in the digital media industry and the strategic business relationship between the Far Glory Group and e-License Inc. (Japan), the Directors believe that the Far Glory Group is well positioned to become the pioneer in the provision of legal copyright protected on-line entertainment and media related items and the related copyright management and digital content licensing solutions in the PRC. Hence, the Board considers that the copyright management and digital licensing business in the PRC is of significant growth potential and generate high profitability and the engagement of the Group in such business will enable the Group to pursue a new line of information technology business in the PRC and generate an additional income source to the Group in the medium term by way of dividend, which is in the interest of the Shareholders and the Company as a whole.

### **GEM LISTING RULES IMPLICATION**

The Disposal constitutes a major and connected transaction on the part of the Company under the GEM Listing Rules. Pursuant to Chapter 20 of the Listing Rules, Mr. Mo and his associates are required to abstain from voting for the resolution approving the Disposal at the EGM. As at the Latest Practicable Date, save for 21,385,920 Shares personally held by Mr. Mo, representing approximately 1.61% of the issued share capital of the Company, Mr. Mo and his associates are not interested in any other Shares. As at the Latest Practicable Date, Mr. Mo and his associates control and are entitled to exercise control over the voting right in respect of the 21,385,920 Shares personally held by Mr. Mo.

There were (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon Mr. Mo and his associates; and (ii) no obligation or entitlement of whereby Mr. Mo and/or his associates had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of his Shares to a third party, either generally or on a case-by-case basis as at the Latest Practicable Date.

There is no discrepancy between the beneficial shareholding interests of Mr. Mo and his associates in the Company as disclosed in this circular and the numbers of the Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.

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## LETTER FROM THE BOARD

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### EGM

A notice convening the EGM to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 19 January 2009 at 11:00 a.m. is set out on pages 33 and 34 of this circular. The voting at the EGM approving the Disposal and the transactions contemplated thereunder shall be taken by way of poll in accordance with the GEM Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at such meeting, you are requested to complete and return the enclosed form of proxy to 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 in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

In accordance with the Articles of Association, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (a) by the Chairman of the meeting; or
- (b) by at least 2 Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (d) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Board considers that the terms of the Disposal are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM.

Your attention is drawn to (i) the letter from the IBC set out on page 13 of this circular which contains its views in relation to the Disposal; and (ii) the letter from the IFA, which contains its advice to the IBC and the Independent Shareholders in relation to the Disposal and the principal factors and reasons considered by it in arriving at its opinions. The text of the letter from the IFA is set out on pages 14 to 22 of this circular.

The IBC, having taken into account the advice of the IFA, considers that the Disposal was entered into on normal commercial terms and that the terms of the Disposal are fair and reasonable and in the interests of the Group so far as the Independent Shareholders are concerned.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular.

Yours faithfully  
For and on behalf of the Board  
**China Digital Licensing (Group) Limited**  
**Pang Hong Tao, Peter**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**China Digital Licensing (Group) Limited**  
**中國數碼版權(集團)有限公司**  
*(Incorporated in Cayman Islands with limited liability)*  
(Stock Code: 8175)

31 December 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR DISPOSAL AND CONNECTED TRANSACTION  
INVOLVING DISPOSAL OF THE ENTIRE EQUITY INTEREST IN  
KANHAN TECHNOLOGIES INC.**

We refer to the circular of the Company dated 31 December 2008 (the “Circular”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the IBC and to advise you the terms of the Disposal whether such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole and how to vote on the resolution regarding the Disposal.

Veda Capital Limited has been appointed as the independent financial adviser to advise the IBC and the Independent Shareholders as to whether the terms of the Disposal are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 14 to 22 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 12 of the Circular and the additional information set out in the appendices of the Circular.

Having considered the terms of the Disposal and the advice of Veda Capital Limited, we are of the opinion that the Disposal was on normal commercial terms and the terms of the Disposal are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Disposal.

Yours faithfully,  
Independent Board Committee of  
**China Digital Licensing (Group) Limited**

**Hsu William Shiu Foo**  
*Independent  
non-executive Director*

**Lee Kun Hung**  
*Independent  
non-executive Director*

**Kwok Chi Sun, Vincent**  
*Independent  
non-executive Director*



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## LETTER FROM VEDA CAPITAL

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*The following is the full text of a letter of advice from Veda Capital to the IBC and the Independent Shareholders in relation to the Disposal pursuant to the Disposal Agreement, which has been prepared for the purpose of inclusion in the Circular.*

**VEDA | CAPITAL**  
**智略資本**

Veda Capital Limited  
Suite 1302, 13/F, Takshing House  
20 Des Voeux Road Central, Hong Kong

31 December 2008

*To the IBC and the Independent Shareholders of  
China Digital Licensing (Group) Limited*

Dear Sirs,

### **MAJOR DISPOSAL AND CONNECTED TRANSACTION INVOLVING DISPOSAL OF THE ENTIRE EQUITY INTEREST IN KANHAN TECHNOLOGIES INC.**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the IBC and the Independent Shareholders in relation to the Disposal, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in this circular (the “**Circular**”) dated 31 December 2008 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 5 December 2008 (after trading hours), the Company, entered into the Disposal Agreement with the Purchaser, pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase (i) the Sale Shares, representing the entire issued share capital of KanHan Inc.; and (ii) the rights of and benefits in the Sale Loan at a total consideration of HK\$1,000,000.

Subsequent to the Disposal, KanHan Inc. will cease to be a subsidiary of the Company. The Disposal constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules. As the Purchaser, being Mr. Mo, is an executive Director, a director of KanHan Inc. and each of the subsidiaries of KanHan Inc., the Disposal constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Disposal is subject to the approval by the Independent Shareholders, by way of poll, at the EGM, in which Mr. Mo and his associates are required to abstain from voting on the resolution approving the Disposal. As at the Latest Practicable Date, save for 21,385,920 Shares personally held by Mr. Mo, representing approximately 1.61% of the issued share capital of the Company, Mr. Mo and his associates are not interested in any other Shares.

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## LETTER FROM VEDA CAPITAL

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The IBC (comprising the independent non-executive Directors, namely Mr. Hsu William Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun) which is not involved in nor has any interest in the Disposal and thus being independent, has been established to advise the Independent Shareholders in respect of the Disposal pursuant to the Disposal Agreement. Veda Capital has been appointed by the Company to advise the IBC and the Independent Shareholders as to (i) whether the terms and conditions of the Disposal are fair and reasonable so far as the Company and the Independent Shareholders are concerned; (ii) whether the Disposal is in the interests of the Company and the Independent Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolution to approve the Disposal.

### **BASIS OF OUR ADVICE**

In formulating our opinion to the IBC and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the EGM.

The Directors have collectively and individually accepted full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (a) the information contained in the Circular is accurate and complete in all material respects and is not misleading; (b) there are no other facts the omission of which would make any statement in the Circular misleading; and (c) all opinions expressed in the Circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or its subsidiaries.

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## LETTER FROM VEDA CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Disposal and in giving our recommendation to the IBC and the Independent Shareholders, we have taken into account the following principal factors and reasons:

#### **Background information on the Group**

The Company is principally engaged in the provision and development of on-line education programs, through its self-developed websites to provide languages (English and Chinese) and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau. The Group has also invested in copyright management and digital licensing business. As at the Latest Practicable Date, the Company held the entire issued share capital of KanHan Inc. Upon Completion, the Company will cease to hold any interest in KanHan Inc. and thus KanHan Inc. will no longer be a subsidiary of the Company. The Group will cease its business in the development and marketing of patented server based technology and the provision of software related services and will be able to deploy all its resources on the provision and development of on-line education business. Such business commenced operation in January 2008 and subsequently acquired by the Group in June 2008.

The Directors are of the view that the on-line education business is of high profitability potential. As a newly established business, the Group has already established close relationship with reputable multi-national educational institutions and teaching materials publisher, namely, Cambridge University Press, British Broadcasting Corporation and the Commercial Press (H.K.) Ltd, for the provision of teaching materials and contents on the Group's education websites and currently over 200,000 students in approximately 280 primary and secondary schools in Hong Kong and Macau are the subscribers of the on-line education programs of the Group. As stated in the Board Letter, the Group is in the course of negotiation with an additional 150 to 200 schools to subscribe for the on-line education programs in the coming second semester.

By applying current business model of on-line education business, the Group opts to expand and develop its business in the PRC and has already entered into co-operation agreement with China Network Communications Group Corporation in Jiangsu. The Group also entered into a service agreement with the Education and Youth Affairs Bureau in Macao through which to provide on-line education programs to all the primary and secondary schools in Macau. Moreover, a nationwide English storytelling contest in the PRC with Cambridge University Press and other partners in the PRC will be organized by the Group. Such contest will serve as a series of promotional activities through which the on-line education business will be further developed in the PRC. It is necessary to point out that the on-line education business only commenced in January 2008 and there are still rooms for further participation by the other primary and secondary schools in Hong Kong, Macau and the PRC. The Directors believe that there are still substantial growth potentials in the business.

The Directors consider that with the improving living standards, high emphasis on education for the next generation, increasing demand for high quality on-line education programs and the accomplished internet network in the PRC, the on-line education business is of high profitability potential in the PRC. With the Group being able to deploy all its resources on such business after the Disposal, the Directors are of the view that the on-line education business will generate high profitability to the Group and the Shareholders in the future.

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## LETTER FROM VEDA CAPITAL

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During the year, the Group acquired 20.56% shareholding interest of Far Glory Limited. Far Glory Limited and its subsidiaries are principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

According to the Ministry of Information of the PRC, there are 548 million mobile phone users in the PRC by the end of 2007, representing an annual growth rate of 18.7%, the mobile phone penetration rate is 41.6%. The internet users in the PRC have reached 210 million by the end of 2007, representing an annual growth rate of 53.3%. According to other researches conducted by the China Internet Network Information Center, approximately 180 million internet users are using the internet for music entertainment purpose. In view of the above and the increasing emphasis on anti-privacy placed by the PRC Government following the entry into the World Trade Organization in 2001, the Directors are of the view that the provision of legal and copyright protected items in particular, the on-line entertainment and media related items, are in high demand in telecommunication industry, music and entertainment industry as well as media industry in the PRC. Moreover, the related copyright management and digital content licensing solutions are particularly vital to the practitioners of the aforesaid industries.

In view of the established leading status of e-License Inc. (Japan) in the digital media industry and the strategic business relationship between the Group and e-License Inc. (Japan), the Directors believe that the Group is well positioned to become the pioneer in the provision of legal copyright protected on-line entertainment and media related items and the related copyright management and digital content licensing solutions in the PRC. Hence, the Board considers that the copyright management and digital licensing business in the PRC is of significant growth potential and generate high profitability and the engagement of the Group in such business will enable the Group to pursue a new line of information technology business in the PRC and generate an additional income source to the Group in the medium term by way of dividend, which is in the interest of the Shareholders and the Company as a whole.

### **Reasons for the Disposal**

The KanHan Inc. Group is principally engaged in the development and marketing of patented server based technology and the provision of software related services. As disclosed in the Board Letter, due to keen competition and given the unfavourable market conditions and the continued loss making positions incurred by the KanHan Inc. Group in the past, the Directors are of the view that the patented server based technology and the software related business is unable to return to profit in the near future.

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## LETTER FROM VEDA CAPITAL

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

	<b>For the year ended 31 December 2006</b>	<b>For the year ended 31 December 2007</b>	<b>Nine months ended 30 September 2008</b>
	(Audited) (HK\$'000)	(Audited) (HK\$'000)	(Unaudited) (HK\$'000)
Turnover	6,622	6,929	5,379
Gross profit	3,133	4,089	3,744
Loss from operation	(2,509)	(1,777)	(648)
Loss before tax	(2,509)	(1,777)	(648)
Loss after tax	(2,509)	(1,777)	(648)
	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31 December 2006</b>	<b>31 December 2007</b>	<b>30 September 2008</b>
	(Audited) (HK\$'000)	(Audited) (HK\$'000)	(Unaudited) (HK\$'000)
Total assets	2,959	2,216	2,692
Total liabilities	(26,756)	(27,838)	(29,047)
Net liabilities	(23,797)	(25,622)	(26,355)

Revenue of the KanHan Inc. Group slightly increased by approximately 4.64% from approximately HK\$6.62 million for the year ended 31 December 2006 to approximately HK\$6.93 million for the year ended 31 December 2007. Although the KanHan Inc. Group recorded gross profits of approximately HK\$3.13 million, approximately HK\$4.09 million and approximately HK\$3.74 million for the two years ended 31 December 2006 and 2007 and nine months ended 30 September 2008 respectively, operation reported losses of approximately 2.51 million, approximately HK\$1.78 million and approximately HK\$0.65 million for the two years ended 31 December 2006 and 2007 and nine months ended 30 September 2008 respectively. Such losses were mainly because the sum of the research and development expenses, distribution cost and administrative expenses outweighed the amount of gross profits for the respective periods. The KanHan Inc. Group also recorded a loss after taxation of approximately HK\$2.51 million, approximately HK\$1.78 million and approximately HK\$0.65 million for the two years ended 31 December 2006 and 2007 and nine months ended 30 September 2008. As can be seen from the above table, net liabilities of the KanHan Inc. Group kept worsening from approximately HK\$23.80 million as at 31 December 2006 to approximately HK\$26.36 million as at 30 September 2008. As at 30 September 2008, the KanHan Inc. Group had unaudited net current liabilities of approximately HK\$2.73 million. The Group had recognized an impairment loss for the Sale Loan in the amount

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## LETTER FROM VEDA CAPITAL

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of approximately HK\$22.4 million for the six months ended 30 June 2008 and it is considered that the possibility of having full recoverability on the Sale Loan was very remote. The Board considers that the Disposal can prevent the Group from suffering further losses and cash outflow for the non-performing patented server based technology and the software related business.

In light of the above, it is likely that the Disposal will (i) streamline the business scope of the remaining Group and allow a more effective allocation of resources to on-line education business which is expected to be more promising; (ii) enable the Group to carve out its unprofitable patented server based technology and the software related business and avoid further losses; and (iii) avoid continual injection of working capital to sustain the operation of the patented server based technology and the software related business. As such, we are of the view that it is in the interests of the Group and the Independent Shareholders as a whole for the Group to dispose of the KanHan Inc. Group.

### **Consideration for the Disposal**

The Consideration for the Sale Shares and the Sale Loan of HK\$1,000,000 shall be payable in cash in the following manner:

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

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

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

As stated in the Board Letter and discussed with the Directors, we understand that the Consideration was arrived at after arm's length negotiations between the Company and the Purchaser having made reference to (i) the unaudited consolidated net liabilities of the KanHan Inc. Group of approximately HK\$26,355,000 as at 30 September 2008; (ii) the loss-making situation of the KanHan Inc. Group for the two years ended 31 December 2007 and nine months ended 30 September 2008; (iii) the competitive environment in the patented server based technology and the software related business; and (iv) low recoverability of the Sale Loan by the Company given the existing worsened financial position of the KanHan Inc. Group. In view of the above, we concur with the Directors that the Consideration of HK\$1,000,000 for the Sale Shares and the Sale Loan is fair and reasonable.

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## LETTER FROM VEDA CAPITAL

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### Conditions

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

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

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

Given the above conditions are for compliance of the relevant provision of the GEM Listing Rules, fulfilling the requirements by the relevant authorities and keeping warranties true and correct in any material respect, we concur with the Directors that the conditions of the Disposal Agreement are in normal commercial terms and fair and reasonable to the Company and the Independent Shareholders.

### Financial effects of the Disposal

#### *(i) Net Asset*

Based on the interim report of the Company for the six months ended 30 June 2008, the unaudited consolidated net asset value of the Group attributable to the Shareholders as at 30 June 2008 was approximately HK\$ 96.43 million. Given the amount of the net liabilities of the KanHan Inc. Group is of a larger amount than the Sale Loan, it is expected that upon Completion, the net asset value of the Group will be improved.

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## LETTER FROM VEDA CAPITAL

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*(ii) Earnings*

It is estimated that, upon Completion, the Group will record a gain on disposal of approximately HK\$4,381,000. Such gain is estimated based on the difference between (i) the Consideration; and (ii) HK\$3,381,000, being the net liabilities of KanHan Inc. Group of approximately HK\$26,355,000 less of (a) the Sale Loan of approximately HK\$22,816,000 as at the date of the Disposal Agreement and (b) the exchange reserves of approximately HK\$158,000.

The amount of gain or loss eventually to be recognized on the consolidated accounts for the Company will depend on the net book value of the KanHan Inc. Group as at the date of Completion. Moreover, in view of the continuous loss making results and the uncertain operating environment of the business of patented server based technology and the software related services, the remaining Group can avoid anticipated future losses by disposing of the KanHan Inc. Group.

*(iii) Cash Flow*

The cashflow of the Group is expected to be increased by the amount of the net proceeds of the Disposal, after deduction of the relevant expenses, in the amount of approximately HK\$0.8 million which are intended to be used as general working capital of the remaining Group. It is probable that further working capital will have to be injected into the KanHan Inc. Group to sustain its operation should the Group continue to keep the business of patented server based technology and the software related services. As such, the Disposal will allow the Group to prevent further injection of working capital and focus its financial resources on the on-line education business, which is of stable income and profitable.

Based on the unaudited consolidated management accounts of the KanHan Inc. Group, cash balance was approximately HK\$612,000 as at 30 September 2008. The Directors, after due and careful consideration, are of the opinion that, taking into consideration the internal financial resources of the Group, the Group will have sufficient working capital for at least twelve months from the date of the Circular. In the absence of unforeseen circumstances, the Disposal will not have a material impact on the cash flow of the Group.

Taking into account the above financial effects, we consider that the Disposal is in the interests of the Company and the Independent Shareholders as a whole and that the terms of the Disposal are fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.



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## LETTER FROM VEDA CAPITAL

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### RECOMMENDATION

Having considered the principal factors and reasons set out above, in particular, the following:

- (i) the loss-making position of the KanHan Inc. Group for the two years ended 31 December 2007 and nine months ended 30 September 2008;
- (ii) the unpromising prospect of the KanHan Inc. Group and further working capital requirement under the current unfavourable operating environment;
- (iii) the net liabilities position of the KanHan Inc. Group of about HK\$26.36 million as at 30 September 2008;
- (iv) the low recoverability of the Sale Loan;
- (v) the Disposal will allow the Group to focus its financial and management resources on on-line education business which is expected to be more promising;
- (vi) the increase in net asset value and cashflow and gain incurred from the Disposal; and
- (vii) the conditions of the Disposal Agreement are in normal commercial terms and fair and reasonable to the Company and the Independent Shareholders,

we consider that the terms of the Disposal are fair and reasonable so far as the Independent Shareholders are concerned and the Disposal is in the interests of the Company and the Independent Shareholders as a whole. We also consider that the terms of the Disposal Agreement were entered into upon normal commercial terms. Accordingly, we recommend the Independent Shareholders, as well as the IBC to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Disposal.

Yours faithfully,  
For and on behalf of  
**Veda Capital Limited**  
**Hans Wong**                      **Julisa Fong**  
*Managing Director*              *Executive Director*

**1. INDEBTEDNESS****Borrowings**

As at the close of business on 30 November 2008, being the latest practicable date for the purpose of this statement of indebtedness, the Group had outstanding borrowings of approximately HK\$56,195,000, details of which are set out below:

	<i>HK\$'000</i>
Financial assistance from government (unsecured and unguaranteed)	1,295
Promissory notes (unsecured and unguaranteed)	3,740
Convertible bonds (unsecured and unguaranteed)	21,000
Other Payables (unsecured and unguaranteed)	30,160
	<hr/>
	56,195
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As at 30 November 2008, the Group had outstanding borrowings and debts of other loan of approximately HK\$1,295,000 due to HKSAR Government. The Innovation and Technology Fund ("ITF") of the HKSAR Government has provided financial assistance to the Group to assist in a specific product development. The funding is unsecured, non-interest bearing and repayable to ITF when revenue is generated from the specific product.

The Group issued a promissory note with face amount HK\$7,240,000 which is interest bearing at 1% per annum and matures on 23 June 2011. As at 30 November 2008, the Group had outstanding promissory note of approximately HK\$3,740,000.

The Group issued convertible bonds with nominal value of HK\$18,000,000 and HK\$3,000,000 to two independent noteholders on 20 June 2008 and 24 June 2008, respectively. The convertible bonds carry coupon interest rate of 1% per annum and with maturity of 3 years. As at 30 June 2008, the Group had outstanding convertible bonds of approximately HK\$21,000,000.

**Contingent liabilities**

As at 30 November 2008, the Group had no material contingent liabilities.

**Commitments**

As at 30 November 2008, the Group had operating lease commitments of approximately HK\$881,000.

**Disclaimer**

Save as aforesaid and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30 November 2008.

The Directors are not aware of any material changes in the financial position of the Group since 30 November 2008, the date to which the indebtedness statement is made.

**2. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the internal financial resources of the Group, the Group will have sufficient working capital for at least twelve months from the date of this circular.

**3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group as at 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and is not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**2. DISCLOSURE OF INTERESTS****(a) Interests of Directors**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows.

(i) *Interest in Shares:*

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of Shares held</b>	<b>Approximate percentage of issued share capital of the Company</b>
Mr. Pang Hong Tao	Beneficial	10,500,000 (L)	0.79%
Mr. Ma She Shing, Albert	Beneficial	870,000 (L)	0.07%
Mr. Mo Wai Ming, Lawrence	Beneficial	21,385,920 (L)	1.61%
Ms. Au Shui Ming, Anna	Beneficial	22,500,000 (L)	1.69%

(L) Long position

(ii) *Interest in share options:*

<b>Name of Director</b>	<b>Number of share options outstanding</b>	<b>Approximate percentage of issued share capital of the Company</b>
Mr. Pang Hong Tao	6,300,000*	0.47%
	7,000,000**	0.53%
Ms. Au Shui Ming, Anna	6,000,000*	0.45%
	7,000,000**	0.53%
Mr. Ma She Shing, Albert	10,000,000**	0.75%

*Note:* \* The exercise price of the share options is HK\$0.151 per Share with exercise period commencing from 18 January 2008 and ending on 20 December 2017.

\*\* The exercise price of the share options is HK\$0.101 per Share with exercise period commencing from 16 September 2008 and ending on 27 August 2018.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

**(b) Interests of substantial Shareholders**

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

<b>Name of Shareholder</b>	<b>Nature of interest</b>	<b>Number of Shares held</b>	<b>Approximate percentage of issued share capital of the Company</b>
Mr. Lau Kim Hung, Jack (Note 1)	Interest of controlled corporation	299,478,238 (L)	22.51%
Ms. Chan Yiu Kan Katie (Note 1)	Deemed	299,478,238 (L)	22.51%
Manciple Enterprises Limited (Note 1)	Beneficial	299,478,238 (L)	22.51%
Ms. Wong Chau Wan, Sanny (Note 2)	Beneficial	1,210,000 (L)	9.56%
	Deemed	125,944,400 (L)	
Mr. Wong Ming Kerry (Note 2)	Beneficial	11,474,400 (L)	9.56%
	Interest of controlled corporation	114,470,000 (L)	
	Deemed	1,210,000 (L)	
Digital Epoch Profits Limited (Note 2)	Beneficial	114,470,000 (L)	8.60%
Mr. Hsu Tung Chi (Note 3)	Beneficial	222,222,222 (L)	16.70%
Ms. Chuang Meng Hua (Note 3)	Deemed	222,222,222 (L)	16.70%

(L) denotes long position

*Notes:*

1. Manciple Enterprises Limited (“**Manciple**”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“**Mr. Lau**”). Manciple beneficially owns 299,478,238 Shares. Under the SFO, Mr. Lau is deemed to be interested in 299,478,238 Shares. Ms. Chan Yiu Kan Katie, the wife of Mr. Lau, is also deemed to be interested in 299,478,238 Shares.
2. Digital Epoch Profits Limited (“**Digital Epoch**”) is wholly and beneficially owned by Mr. Wong Ming Kerry (“**Mr. Wong**”). Digital Epoch beneficially owns 114,470,000 Shares. Under the SFO, Mr. Wong is deemed to be interested in the said 114,470,000 Shares.

Mr. Wong is personally interested in 11,474,400 Shares, and his wife, Ms. Wong Chau Wan, Sanny (“**Ms. Wong**”), also beneficially owns 1,210,000 Shares. Being spouses, Mr. Wong and Ms. Wong are deemed to be interested in their respective shareholding in the Company under the SFO.

3. According to the sale and purchase agreement entered into among Cheer Plan Limited, a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi (“**Mr. Hsu**”) and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will issue convertible bonds to Mr. Hsu entitling the holder thereof to convert the same into a maximum of 222,222,222 Shares upon full conversion.

Ms. Chuang Meng Hua is deemed to be interested in 222,222,222 convertible bonds of the Company by virtue of her being the spouse of Mr. Hsu.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

### 3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

- (a) the conditional legally binding memorandum of understanding dated 2 February 2007 and the formal sale and purchase agreement dated 21 March 2007 and entered into between Mr. Yang Pei Gen and Rise Assets Limited (“**Rise Assets**”), a wholly owned subsidiary of the Company, in respect of the acquisition of Silky Sky Investments Limited for a total consideration of HK\$61 million;
- (b) the memorandum of understanding dated 4 October 2007 and entered into among the Company, Mr. Yip Yuk Tong and Proud Dragon Limited (“**Proud Dragon**”) in respect of the proposed acquisition of the whole or part of equity interest held by Rise Assets in Proud Dragon;

- (c) the underwriting agreement dated 29 October 2007 entered into between the Company, Quam Securities Company Limited and Partners Capital International Limited in relation to the open offer announced by the Company on 2 November 2007 and 17 December 2007 respectively;
- (d) the conditional agreement dated 29 October 2007 and entered into among Mr. Yip Yuk Tong as a vendor, Rise Assets as a purchaser and Proud Dragon in respect of the acquisition of the 318 shares of Proud Dragon and the subscription of 158 shares of Proud Dragon by the Vendor at a total consideration of HK\$47,600,000;
- (e) the conditional agreement dated 14 April 2008 entered into between the Cheer Plan Limited, a wholly owned subsidiary of the Company, as a subscriber and Far Glory Limited in relation to the subscription of 900 new shares of Far Glory Limited at a total consideration of HK\$20,250,000;
- (f) the conditional agreement dated 21 April 2008 entered into between Rise Assets and Mr. Lao Kuai Hong in relation to the disposal of 476 ordinary shares of Proud Dragon, representing 100% of the equity interest in Proud Dragon;
- (g) the conditional agreement dated 5 May 2008 entered into among Cheer Plan Limited, a wholly owned subsidiary of the Company, as purchaser, Mr. Hsu Tung Chi as vendor, and Mr. Hsu Tung Sheng as guarantor in relation to the acquisition of 1,308 ordinary shares of Far Glory Limited, representing 12% of the total issued share capital of Far Glory Limited;
- (h) the conditional agreement dated 2 June 2008 entered into among Wonder Link Limited, a wholly owned subsidiary of the Company, as purchaser, Smart Great International Limited as vendor and Mr. Liu Zong Hong as guarantor in relation to the acquisition of 102 ordinary shares of Start Bright Limited;
- (i) the conditional sale and purchase agreement dated 7 July 2008 entered into between Rise Assets Limited, a wholly owned subsidiaries of the Company, as vendor and Mr. Zeng Xiang Yang as purchaser in relation to the disposal of one ordinary share of Silky Sky Investments Limited, representing the entire equity interest in Silky Sky Investments Limited for a total consideration of HK\$15,000,000; and
- (j) the Disposal Agreement.

#### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).



## 5. LITIGATION

So far as the Directors are aware, no member of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

## 6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

## 7. INTERESTS IN CONTRACTS AND ASSETS

No contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

None of the Directors nor expert referred to in paragraph headed "Expert" in this appendix has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

## 8. EXPERT

The following is the qualifications of the expert who have given an opinion or advice contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
Veda Capital Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Veda Capital Limited did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, Veda Capital Limited was not interested beneficially or non-beneficially in any Shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Veda Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its name in the form and context in which it respectively appears.

## 9. MISCELLANEOUS

- (a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.
- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.
- (c) The principal share registrar and transfer office of the Company is Butterfield Fund Services (Cayman) Limited whose address is Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The company secretary and the qualified accountant of the Company is Ms. Au Shui Ming, Anna, who is a certified practicing accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants.
- (f) The compliance officer of the Company is Mr. Mo Wai Ming, Lawrence who is also an executive Director.
- (g) The Company has established an audit committee with written terms of reference prepared and adopted with reference to the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The audit committee comprises three members, namely Mr. Hsu Shiu Foo, William, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent who are all independent non-executive Directors. Set out below are their background and directorships (present and past) of other companies listed on GEM, the main board of the Stock Exchange or other stock exchanges.

Mr. Lee Kun Hung, aged 42, is an independent non-executive Director and audit committee member of the Company. Mr. Lee has over 15 years of manufacturing experience in the watch industry. Mr. Lee holds a Bachelor of Arts degree from Boston College, Massachusetts, US. Mr. Lee has not held any directorship in any listed company.

Mr. Hsu Shiu Foo, William, aged 57, is an independent non-executive Director and audit committee member of the Company. Mr. Hsu has over 10 years of global business experience in tourism and service-oriented related fields in various international corporations. Mr. Hsu holds a Bachelor degree in Arts from Brigham Young University, Hawaii and a Master degree in Hotel Administration from Cornell University, New York. Mr. Hsu is currently an independent non-executive director or other listed companies.

Mr. Kwok Chi Sun, Vincent, aged 45, is an independent non-executive Director and audit committee member of the Company. Mr. Kwok is a sole proprietor of Vincent Kwok & Co., and is a Certified Public Accountant. He is an independent non-executive director of other listed companies.

#### 10. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association and Articles of Association of the Company;
- (b) the written consent from the expert referred to under the paragraph headed “Expert” in this appendix;
- (c) the material contracts referred to under the paragraph “Material contracts” in this appendix;
- (d) the annual reports of the Company for each of the financial years ended 31 December 2006 and 31 December 2007 respectively; the interim reports of the Company for the six months ended 30 June 2008; and the first unaudited first and third quarterly report 2008 for the three months ended 31 March 2008 and for the nine months ended 30 September 2008 respectively;
- (e) the letter from the IBC, the text of which is set out on page 13 in this circular;
- (f) the letter of advice from Veda Capital Limited, the IFA, to the IBC and the Independent Shareholders, the text of which is set out on pages 14 to 22 in this circular;
- (g) each of the circulars issued pursuant to the requirements set out in Chapter 19 and/or Chapter 20 of the GEM Listing Rules which have been issued by the Company since 31 December 2007 (the date to which the latest published audited consolidated financial statements of the Group were made up); and
- (h) this circular.

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## NOTICE OF EGM

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**China Digital Licensing (Group) Limited**  
**中國數碼版權(集團)有限公司**  
*(Incorporated in Cayman Islands with limited liability)*  
(Stock Code: 8175)

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**Meeting**”) of China Digital Licensing (Group) Limited (the “**Company**”) will be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 19 January 2009 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as an ordinary resolution:

### ORDINARY RESOLUTION

“**THAT**

- (a) the conditional sale and purchase agreement (the “**Disposal Agreement**”) dated 5 December 2008 entered into between the Company as vendor and Mr. Mo Wai Ming, Lawrence as purchaser in relation to the disposal of (i) 116,225 shares of US1.00 each in the share capital of KanHan Technologies Inc. (“**KanHan Inc.**”), representing the entire issued share capital of KanHan Inc.; and (ii) all obligations, liabilities and debts owing or incurred by KanHan Inc. to the Company on completion of the Disposal Agreement (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 thereunder be and is hereby ratified, confirmed and approved; and
- (b) any director(s) (the “**Director(s)**”) of the Company be and are hereby authorised to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Disposal Agreement and the transactions contemplated thereunder.”

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

Hong Kong, 31 December 2008

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## NOTICE OF EGM

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*Registered office:*

Caledonian Bank & Trust Limited  
Caledonian House  
P.O. Box 1043  
George Town  
Grand Cayman  
Cayman Islands

*Head office and principal place of  
business in Hong Kong:*

Unit 1601, Ruttonjee House  
Ruttonjee Centre  
11 Duddell Street  
Central  
Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy needs not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged at the Company's branch registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.