
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 registered dealer 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 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 with limited liability)

(Stock Code: 8175)

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION INVOLVING THE REVISED REVOLVING FACILITY TO BE GRANTED BY THE COMPANY

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

A letter from the independent committee (the “Independent Board Committee”) of the board of directors of the Company is set out on pages 4 to 10 of this circular. A letter from Veda Capital Limited, the independent financial adviser of the Company, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 21 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Friday, 3 September 2010 at 11:00 a.m. is set out on pages 28 to 29 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular.

Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company’s branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26th Floor, 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 appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

This circular will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for seven days from the date of its publication and on the website of the Company at www.chinadigitallic.com.

13 August 2010

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 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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DEFINITIONS

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

“associates”	has the same meaning ascribed to such term under the GEM Listing Rules
“Beijing e-License”	Beijing YiLaiShen Technology Company Limited (北京易來申科技有限公司)
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	China Digital Licensing (Group) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Director(s)”	the director(s) of the Company from time to time
“Effective Date”	the third Business Day after all conditions precedent set out in the Supplemental Agreement are satisfied or subject to the satisfaction of all such conditions precedent, any later day as may be agreed between the Company and Far Glory
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder
“Far Glory”	Far Glory Limited, a company incorporated in the British Virgin Islands
“Far Glory Group”	Far Glory and its subsidiaries
“First Announcement”	the announcement of the Company dated 11 February 2010 in relation to the Loan Agreement and the Original Facility
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM

DEFINITIONS

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder
“Independent Financial Adviser” or “Veda Capital”	Veda Capital Limited, a licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activity, appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Mr. Lau Kim Hung, Jack, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Lam Hing Lun, Alain, Mr. Yip Yung Kan, Mr. Wong Ming Kerry and their respective associates or others who are interested in the Loan Agreement (as supplemented by the Supplemental Agreement) at the forthcoming EGM
“Latest Practicable Date”	11 August 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Loan Agreement”	the conditional loan agreement dated 11 February 2010 entered into between the Company, as lender and Far Glory, as borrower, pursuant to which, the Company has agreed to provide the Original Facility
“Original Facility”	up to a maximum amount of HK\$9.5 million to be drawn pursuant to the Loan Agreement, details of which have been disclosed in the First Announcement
“PRC”	the People’s Republic of China
“Revised Revolving Facility”	up to a maximum amount of HK\$40 million to be drawn pursuant to the Loan Agreement (as supplemented by the Supplemental Agreement) at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Supplemental Agreement

DEFINITIONS

“Second Announcement”	the announcement of the Company date 23 July 2010 in relation to the Loan Agreement (as supplemented by the Supplemental Agreement) and the Revised Revolving Facility
“Share(s)”	ordinary shares of HK\$0.05 each in the capital of the Company
“Shareholders”	holders of the issued Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 23 July 2010 entered into between the Company and Far Glory, pursuant to which, the Company has agreed to provide the Revised Revolving Facility to Far Glory
“%”	per cent

LETTER FROM THE BOARD



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

Executive Directors:

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

Non-executive Director:

Mr. Ma She Shing, Albert

Independent non-executive Directors:

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

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

13 August 2010

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION INVOLVING THE REVISED REVOLVING FACILITY TO BE GRANTED BY THE COMPANY

INTRODUCTION

Reference is made to the First Announcement in relation to the grant by the Company to Far Glory the Original Facility by way of the Loan Agreement of up to a maximum amount of HK\$9.5 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Loan Agreement.

Reference is also made to the Second Announcement, the Company and Far Glory have entered into the Supplemental Agreement, pursuant to which the Company and Far Glory have agreed to revise the Loan Agreement, such that the Original Facility granted by the Company to Far Glory shall, upon the Effective Date, be revised as the Revised Revolving Facility of up to a maximum amount of HK\$40 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Supplemental Agreement for financing the business development and working capital requirements of the Far Glory Group.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other matters, (i) details of the Loan Agreement (as supplemented by the Supplemental Agreement) and the Revised Revolving Facility; (ii) a letter from the Independent Board Committee containing its advice in respect of the Loan Agreement (as supplemented by the Supplemental Agreement); (iii) a letter from Veda Capital to the Independent Board Committee and Independent Shareholders containing its advice in respect of the Loan Agreement (as supplemented by the Supplemental Agreement); and (iv) a notice convening the EGM, in compliance with the GEM Listing Rules.

THE SUPPLEMENTAL AGREEMENT

- Date: 23 July 2010 (after trading hours)
- Parties:
- Lender: (i) the Company, which holds indirectly 51% equity interest in Far Glory
- Borrower: (ii) Far Glory, an indirect non wholly-owned subsidiary of the Company, of which a substantial shareholder of the Company, Mr. Lau Kim Hung Jack holds 19.91% equity interest. Far Glory is therefore a connected person of the Company

Terms of the Revised Revolving Facility

- (i) Amount : Up to a maximum amount of HK\$40 million at any time during the term of the Revised Revolving Facility
- (ii) Drawings : Drawings may be made from the date of the Loan Agreement up to the date falling 35 months from the date of the Supplemental Agreement
- (iii) Repayment : Outstanding amount drawn together with all outstanding interest accrued thereon shall be repaid in full in one lump sum on the date falling 36 months from the date of the Supplemental Agreement
- (iv) Term : From the date of the Loan Agreement up to the date falling 36 months from the date of the Supplemental Agreement
- (v) Interest : At one (1) per cent per annum above the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited (currently at 5% per annum), i.e. 6% per annum, which was arrived at after arm's length negotiations between the Company and Far Glory, and is better than the commercial lending rate charged by financial institutions (as the prime rate of financial institutions ranges from 5% to 5.25%). The Directors (including the independent non-executive Directors) consider the interest rate to be fair and reasonable

LETTER FROM THE BOARD

- (vi) Renewable : Subject to the facility amount and the terms and conditions of the Loan Agreement (as supplemented by the Supplemental Agreement), any amount repaid prior to the expiry of the drawings availability period may be redrawn
- (vii) Intended use of proceeds : (i) For the operation and business development of the digital copyright management business and digital content licensing business of the Far Glory Group by way of capital injection or shareholder's loan to subsidiaries and associated companies of Far Glory; and (ii) general working capital of the Far Glory Group

Conditions precedent

The Supplemental Agreement shall only become effective subject to the following conditions having been fulfilled:

- (a) if required, the Shareholders (or where appropriate, the Independent Shareholders) passing at the EGM the necessary resolutions approving the Loan Agreement (as supplemented by this Supplemental Agreement) and the transactions contemplated thereunder;
- (b) all necessary approval, consents, authorisations and licences in relation to the transactions contemplated under the Loan Agreement (as supplemented by the Supplemental Agreement) having been obtained; and
- (c) all representations and warranties made by the Borrower under the Loan Agreement (as supplemented by the Supplemental Agreement) or in connection herewith shall be true and correct with the same effect as though made on and as of Effective Date with reference to the facts and circumstances then subsisting.

Information of the Group

The Group is currently engaged in the provision of digital copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as online entertainment and media related items) through the Far Glory Group. The Group is also engaged in e-learning business.

Information of the Far Glory Group

Beijing e-License, a 50%-50% joint venture between Far Glory and e-License Inc., has entered into a ten-year full technical collaboration agreement with China Audio-Video Copyright Association (CAVCA) to provide e-License digital copyright management system and services to major service providers of the fixed and wireless networks (i.e. the telecommunication and the Internet) and other digital media service providers in the PRC.

LETTER FROM THE BOARD

Sky Asia Investments Limited and Beijing LianYiHuiZhong Technology Company Limited (北京聯易匯眾科技有限公司), both being the wholly owned subsidiaries of Far Glory, are principally engaged in the provision of digital content licensing solution and distribution of other entertainment related business in the PRC and have been granted authorizations by major record labels (including avex, AsiaMuse and Mainstream Music, etc.) for provision of music contents.

The Far Glory Group has obtained authorization from the major record label, avex, for the provision of licensed audio entertainment contents to Baidu Internet Portal (百度網站) and two of the major telecommunication operators in the PRC. The Far Glory Group has also obtained authorization from the major record label, Warner/Chappell, for the provision of licensed audio entertainment contents to a major telecommunication operator in the PRC. Same arrangements are also finalized with other major record labels. The Far Glory Group will collaborate with CAVCA to set up a national music and video database and will continue to obtain authorizations from other major record labels for music contents.

Reasons for the Revised Revolving Facility

As disclosed in the First Announcement, 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, music and entertainment industry as well as media industry in the PRC and the development of digital licensing business in the areas of Internet and telecommunications is of high profitability potential in the PRC.

The Directors are of the view that in light of the growth potential of the Far Glory Group and the difficulty in borrowing external bank loans given the newly startup background of the Far Glory Group, the provision of the Revised Revolving Facility to make available additional funding and flexibility to the Far Glory Group to expand its business in the digital copyright management business is in the interests of the Company and the Shareholders as a whole.

The Directors consider that the increase in principal amount of the loan facility has taken into account the future funding requirements of the Far Glory Group to obtain authorization from the major record labels for the provision of licensed audio entertainment contents to Baidu Internet Portal (百度網站) and the major telecommunication operators in the PRC, which will be one of the key revenue generating factors for the Far Glory Group and the Group as a whole.

The provision of the Revised Revolving Facility to Far Glory will be funded by internal financial resources of the Group including funds generated from operation and fund raising activities completed prior to the Latest Practicable Date, of which HK\$27.50 million was raised by placing of new Shares as announced by the Company on 8 September 2009, the intended use of proceeds of HK\$27.50 million was for general working capital of the Group and/or possible investments, the Directors consider to use such proceeds to facilitate the Revised Loan Facility is appropriate as such funds provided to Far Glory was for business development and related investments of the Group, which is consistent to the intended use of proceeds. As per the interim results for the six months ended 30 June 2010 of the Group announced on 9 August 2010, as at 30 June 2010, the cash and bank balances of the Group amounted to approximately HK\$43.76 million. The Directors confirm the Group has sufficient internal resources for the Revised Revolving Facility and sufficient working

LETTER FROM THE BOARD

capital (after drawing of the Revised Revolving Facility) to operate its business taken into account: (i) HK\$4 million has been drawn by Far Glory; (ii) current cash position of the Group; and (iii) the Board has been informed by Far Glory that it is not their intention to draw up the maximum amount of the Revised Revolving Facility within a short period of time. The Directors will consider to carry out fund raising activities, including but not limited to placing of new Shares as when appropriate to strengthen financial position of the Group for future business development and general working capital. The terms of the Revised Revolving Facility pursuant to the Loan Agreement (as supplemented by the Supplemental Agreement) have been agreed after arm's length negotiations between the parties with reference to the future funding requirements of the Far Glory Group.

The Directors consider that the use of the Revised Revolving Facility by Far Glory is properly safeguarded as:

1. all directors of Far Glory are nominated by the Company;
2. the Company has over 50% voting rights of Far Glory;
3. the Revised Revolving Facility is restricted to finance the general working capital requirements and the digital copyright management system and digital content licensing business of the Far Glory Group; and
4. an annual review of the Revised Revolving Facility shall be conducted by the Company and the Company has the overriding right to determine whether to continue to grant further facility, request for repayment of facility.

The Directors (including the independent non-executive Directors) consider that the grant of the Revised Revolving Facility, although not in the ordinary and usual course of business of the Company, is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole given that the Revised Revolving Facility will be utilised to operate the business development of the Far Glory Group for generating revenue, which is one of the key revenue sources of the Group.

Far Glory and its ultimate beneficial owners (Mr. Lau Kim Hung, Jack, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Lam Hing Lun, Alain, Mr. Yip Yung Kan and Mr. Wong Ming Kerry) have not given any guarantee and/or security for the Revised Revolving Facility.

GEM LISTING RULES IMPLICATION

As one of the applicable percentage ratios as defined in the GEM Listing Rules exceeds 5% but is less than 25%, the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder constitute a discloseable transaction under Chapter 19 of the GEM Listing Rules. Far Glory is a connected person of the Company under R.20.11(5) of the GEM Listing Rules. The Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder also constitute a continuing connected transaction for the Company and are subject to the reporting and announcement requirements as well as the Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

LETTER FROM THE BOARD

Approval of the Independent Shareholders by way of poll is proposed to be sought at the EGM in respect of the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

Mr. Lau Kim Hung, Jack, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Lam Hing Lun, Alain, Mr. Yip Yung Kan, Mr. Wong Ming Kerry (all being ultimate shareholders of Far Glory with shareholding of approximately 19.91%, 1.50%, 6.80%, 9.91%, 2.39% and 8.49% respectively) and their respective associates shall abstain from voting for the relevant resolution approving the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder at the EGM. Mr. Hsu Tung Sheng, as Director has also abstained from voting on the board resolution of the Company for approving the Loan Agreement (as supplemented by the Supplemental Agreement) and the transaction contemplated thereunder on 23 July 2010.

As at the Latest Practicable Date, Mr. Lau Kim Hung, Jack, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Lam Hing Lun, Alain, Mr. Yip Yung Kan and Mr. Wong Ming Kerry are interested in 416,698,238 Shares, 19,000,000 Shares, 77,000,000 Shares, 68,385,400 Shares, 23,000,000 Shares and 125,874,000 Shares respectively. The Board was advised by Mr. Lau Kim Hung, Jack, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Lam Hing Lun, Alain, Mr. Yip Yung Kan and Mr. Wong Ming Kerry that they have no intention to vote against the relevant resolutions. Further, pursuant to the GEM Listing Rules, any vote of the Independent Shareholders at the EGM will be taken by poll.

EGM

Set out on pages 28 to 29 is a notice convening the EGM to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Friday, 3 September 2010 at 11:00 a.m. at which an ordinary resolutions will be proposed to the Shareholders to consider and, if thought fit, approve the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy of the EGM is enclosed with this circular. Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the same to the Company's Hong Kong branch share registrar, Tricor Standard Limited at 26th Floor, 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 the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at EGM or any adjournment thereof if you so wish.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises Mr. Lee Kun Hung, Mr. Kwok Chi Sun, Vincent and Mr. Wong Tak Shing all being the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

The Independent Board Committee and the Directors, having taken into account the advice of the Independent Financial Adviser, consider that the Loan Agreement (as supplemented by the Supplemental Agreement) was entered into on normal commercial terms and that the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable and in the interests of the Group so far as the Independent Shareholders are concerned and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the EGM for approving the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

The text of the letter from the Independent Board Committee is set out on page 11 of this circular and the text of the letter from the Independent Financial Adviser containing its advice is set out on pages 12 to 21 of this circular.

RECOMMENDATION

The Board having taken into account the advice of the Independent Financial Adviser and the Independent Board Committee considers that the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent 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 Independent Board Committee set out on page 11 of this circular which contains its views in relation to the Loan Agreement (as supplemented by the Supplemental Agreement) and transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser, which contains its advice to the Independent Board Committee and the Independent Shareholders in respect to the Loan Agreement (as supplemented by the Supplemental Agreement) and transactions contemplated thereunder. The text of the letter from the Independent Financial Adviser is set out on pages 12 to 21 of this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

13 August 2010

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION
INVOLVING THE REVISED REVOLVING FACILITY TO BE GRANTED
BY THE COMPANY**

We refer to the circular of the Company dated 13 August 2010 (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 Independent Board Committee and to advise you as to whether the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) and the transaction contemplated thereunder 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. Veda Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 12 to 21 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 10 of the Circular and the additional information set out in the appendix of the Circular.

Having considered the terms of the Agreement, the principal reasons and factors considered by, and the advice of Veda Capital Limited, we are of the opinion that (i) the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder is on normal commercial terms and the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) 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 Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

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

Mr. Wong Tak Shing
*Independent non-executive
Director*

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

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

LETTER FROM VEDA CAPITAL

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Loan Agreement (as supplemented by the Supplemental Agreement) prepared for the purpose of inclusion in this circular.

VEDA | CAPITAL
智 略 資 本

Veda Capital Limited
Suite 3214, 32/F
COSCO Tower
183 Queen's Road Central
Hong Kong

13 August 2010

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

Dear Sirs,

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION INVOLVING THE REVISED REVOLVING FACILITY TO BE GRANTED BY THE COMPANY

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and the reasonableness of the terms of the Loan Agreement (as supplemented by the Supplemental Agreement), details of which are set out in the circular to the Shareholders dated 13 August 2010 (the “**Circular**”), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

As set out in the First Announcement, the Company, as lender, and Far Glory, as borrower, have entered into the Loan Agreement on 11 February 2010, pursuant to which, the Company has granted to Far Glory the Original Facility of up to a maximum amount of HK\$9.5 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Loan Agreement.

On 23 July 2010, the Company and Far Glory have entered into the Supplemental Agreement, pursuant to which the Company and Far Glory have agreed to revise the Loan Agreement, such that the Original Facility granted by the Company to Far Glory shall, upon the Effective Date, be revised as the Revised Revolving Facility of up to a maximum amount of HK\$40 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Supplemental Agreement for financing the business development and working capital requirements of the Far Glory Group.

LETTER FROM VEDA CAPITAL

As one of the applicable percentage ratios as defined in the GEM Listing Rules exceeds 5% but is less than 25%, the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder constitute a discloseable transaction under Chapter 19 of the GEM Listing Rules. Far Glory is a connected person of the Company under R.20.11(5) of the GEM Listing Rules. The Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder also constitute a continuing connected transaction for the Company which are subject to the reporting and announcement requirements as well as the Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Independent Board Committee, comprising Mr. Lee Kun Hung, Mr. Kwok Chi Sun, Vincent and Mr. Wong Tak Shing, has been established to advise the Independent Shareholders as to (i) whether the Loan Agreement (as supplemented by the Supplemental Agreement) is in the ordinary and usual course of business of the Company; (ii) whether the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) are normal, commercial, fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the Loan Agreement (as supplemented by the Supplemental Agreement) is in the interests of the Company and the Independent Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the relevant resolution to approve the Loan Agreement (as supplemented by the Supplemental Agreement) at the EGM.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon the accuracy of the information and the representations contained in the Circular and the information provided to us by the Company, the Directors and the management. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management, for which they are solely and wholly responsible, were true at the time when they were made and continue to be true as at the date of the EGM. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been confirmed by the Directors that no material facts and representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and management of the Company. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendation regarding the Loan Agreement (as supplemented by the Supplemental Agreement).

LETTER FROM VEDA CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Loan Agreement (as supplemented by the Supplemental Agreement), we have taken into consideration the following factors and reasons:

1. Information of the Group and Far Glory Group

As set out in the Letter from the Board (the “**Board Letter**”), the Group is currently engaged in the provision of digital copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as online entertainment and media related items) through the Far Glory Group. The Group is also engaged in e-Learning business.

As advised by the Company, as at the Latest Practicable Date, it is interested in approximately 51% shareholding interest in Far Glory, which in turn owns 50% indirect shareholding interest in Beijing e-License. Beijing e-License, a 50%-50% joint venture between Far Glory and e-License Inc., has entered into a ten-year full technical collaboration agreement with China Audio-Video Copyright Association (CAVCA) (the “**Service Agreement**”) to provide e-License digital copyright management system and services to major service providers of the fixed and wireless networks (i.e. the telecommunication and the Internet) and other digital media service providers in the PRC.

Sky Asia Investments Limited and Beijing LianYiHuiZhong Technology Company Limited (北京聯易匯眾科技有限公司), both being the wholly owned subsidiaries of Far Glory, are principally engaged in the provision of digital content licensing solution and distribution of other entertainment related business in the PRC and have been granted authorizations by major record labels (including avex, AsiaMuse and Mainstream Music, etc.) for provision of music contents (the “**Music Authorization**”).

The Far Glory Group has obtained authorization from the major record label, avex, for the provision of licensed audio entertainment contents (the “**Audio Entertainment Authorization I**”) to Baidu Internet Portal (百度網站) and two of the major telecommunication operators in the PRC. The Far Glory Group has also obtained authorization from the major record label, Warner/Chappell, for the provision of licensed audio entertainment contents (the “**Audio Entertainment Authorization II**”) to a major telecommunication operator in the PRC. Same arrangements are also finalized with other major record labels. The Far Glory Group will collaborate with CAVCA to set up a national music and video database and will continue to obtain authorizations from other major record labels for music contents.

LETTER FROM VEDA CAPITAL

2. Financial information of the Group

According to the Group's 2009 annual report (the "AR 2009"), the turnover of the Group was approximately HK\$4.32 million (comprising turnover from continuing operation of approximately HK\$4.15 million and discontinued operations of approximately HK\$0.17 million) for the year ended 31 December 2009. The turnover from continuing operation of approximately HK\$4.15 million represented an increase of approximately 319.19% as compared to the turnover from continuing operation for the year ended 31 December 2008 of approximately HK\$0.99 million. As set out in AR 2009, such increase in turnover from continuing operation was mainly driven by the robust growth in sales of e-Learning business.

The loss attributable to Shareholders was approximately HK\$8.77 million for the year ended 31 December 2009, which represented a decrease of approximately 86.75% as compared to the loss attributable to Shareholders for the year ended 31 December 2008 of approximately HK\$66.16 million. As set out in AR 2009, the improvement was mainly attributable to the decrease in the overhead expenses resulting from the disposal of loss-making businesses in the previous year.

According to the Company's announcement dated 9 August 2010 in respect of the interim results of the Group for the six months ended 30 June 2010 (the "Interim Results Announcement"), the turnover from continuing operations of the Group was approximately HK\$2.77 million for the six months ended 30 June 2010, representing an increase of approximately 44.27% to the turnover from continuing operations of approximately HK\$1.92 million for the six months ended 30 June 2009. As set out in the Interim Results Announcement, such increase in turnover was mainly attributable to the growth in sales of e-Learning business.

The Group recorded loss attributable to the Shareholders of approximately HK\$2.81 million for the six months ended 30 June 2010 and profit attributable to the Shareholders of approximately HK\$0.12 million for the six months ended 30 June 2009. As set out in the Interim Results Announcement, the net profit in the preceding year included a non-recurring profit of approximately HK\$4.67 million from the disposal of server-based technology business.

3. Reasons for the Revised Revolving Facility

As disclosed in the First Announcement, 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, music and entertainment industry as well as media industry in the PRC and the development of digital licensing business in the areas of Internet and telecommunications is of high profitability potential in the PRC.

The Directors are of the view that in light of the growth potential of the Far Glory Group and the difficulty in borrowing external bank loans given the newly startup background of the Far Glory Group, the provision of the Revised Revolving Facility to make available additional funding and flexibility to the Far Glory Group to expand its business in the digital copyright management business is in the interests of the Company and the Shareholders as a whole.

LETTER FROM VEDA CAPITAL

The Directors consider that the increase in principal amount of the loan facility has taken into account the future funding requirements of the Far Glory Group to obtain authorization from the major record labels for the provision of licensed audio entertainment contents to Baidu Internet Portal (百度網站) and the major telecommunication operators in the PRC, which will be one of the key revenue generating factors for the Far Glory Group and the Group as a whole.

As set out in the Board Letter, the provision of the Revised Revolving Facility to Far Glory will be funded by internal financial resources of the Group including funds generated from operation and fund raising activities completed prior to the Latest Practicable Date, of which HK\$27.50 million was raised by placing of new Shares as announced by the Company on 8 September 2009, the intended use of proceeds of HK\$27.50 million was for general working capital of the Group and / or possible investments, the Directors consider to use such proceeds to facilitate the Revised Loan Facility is appropriate as such funds provided to Far Glory was for business development and related investments of the Group, which is consistent to the intended use of proceeds. As per the Interim Results Announcement, the cash and bank balances of the Group amounted to approximately HK\$43.76 million as at 30 June 2010. The Directors confirm the Group has sufficient internal resources for the Revised Revolving Facility and sufficient working capital (after drawing of the Revised Revolving Facility) to operate its business taken into account: (i) HK\$4 million has been drawn by Far Glory; (ii) current cash position of the Group; and (iii) the Board has been informed by Far Glory that it is not their intention to draw up the maximum amount of the Revised Revolving Facility within a short period of time. The Directors will consider to carry out fund raising activities, including but not limited to placing of new Shares as when appropriate to strengthen financial position of the Group for future business development and general working capital. The terms of the Revised Revolving Facility pursuant to the Loan Agreement (as Supplemented by the Supplemental Agreement) have been agreed after arm's length negotiations between the parties with reference to the future funding requirements of the Far Glory Group.

The Directors consider that the use of the Revised Revolving Facility by Far Glory is properly safeguarded as:

1. all directors of Far Glory are nominated by the Company;
2. the Company has over 50% voting rights of Far Glory;
3. the Revised Revolving Facility is restricted to finance the general working capital requirements and the digital copyright management system and digital content licensing business of the Far Glory Group; and
4. an annual review of the Revised Revolving Facility shall be conducted by the Company and the Company has the overriding right to determine whether to continue to grant further facility, request for repayment of facility.

The Directors consider that the grant of the Revised Revolving Facility, although not in the ordinary and usual course of business of the Company, is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole given that the Revised

LETTER FROM VEDA CAPITAL

Revolving Facility will be utilised to operate the business development of the Far Glory Group for generating revenue, which is one of the key revenue sources of the Group. Far Glory and its ultimate beneficial owners (Mr. Lau Kim Hung, Jack, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Lam Hing Lun, Alain, Mr. Yip Yung Kan and Mr. Wong Ming Kerry) have not given any guarantee and/or security for the Revised Revolving Facility.

We have reviewed the AR 2009 and noted that, the digital licensing and copyright management business became a 51% subsidiary of the Group during the year 2009. After years of negotiations, collaboration arrangements with the Government authorities and major players in the industries were finalised during the year 2009. The ground works for co-operations to create an unprecedented digital copyright management industry in the PRC were laid down. The technical interfacing with a major telecommunication operator and the largest audio/video entertainment on-line portal in the PRC is completed and tested. We have also reviewed the Interim Results Announcement and noted that the Group formally launched its licensed Japanese digital audio entertainment contents in the Japanese song section (日語歌曲下載區) on Baidu (百度網站) in April 2010 (the “**Formal Launch**”). Over 9,000 licensed Japanese songs of avex have been uploaded by the Group (the “**Uploads**”) and the related download/trial rates hit over one million. The Group will complete the installation of a full range Japanese digital audio entertainment contents platform on Baidu (百度網站) (the “**Installation**”) and such stage of operation is expected to complete in two to three months. In the next stage of operation, the Group will provide full range of digital copyrights management services to Baidu (百度網站) (the “**Provision of Services**”), which is expected to complete within 2010. The Group has, in principle, reached agreement with several major record labels for authorization of the Group to provide licensed music contents to a telecommunication provider in the PRC (the “**Telecommunication Agreement**”). Related documentations are expected to be executed shortly. The infrastructure and backbone of the e-License digital copyright management system for the 2.5G and 3G mobile telecommunication networks of such major telecommunication operator has already completed and such system is in a ready-to-launch mode.

We have reviewed the liquidity position of the Group and noted from the Interim Results Announcement that the Company recorded bank balances and cash of approximately HK\$43.76 million and net current assets of approximately HK\$59.18 million as at 30 June 2010 and current ratio (as defined by total current assets divided by total current liabilities) of approximately 39.25 as at 30 June 2010. We also noted from the Company’s announcement dated 10 August 2010 that the Company has entered into share subscription agreements and warrant subscription agreements on 10 August 2010. As set out in such announcement, it is intended that (i) the expected net proceeds from the share subscription of approximately HK\$27.00 million will be applied towards the business development of digital copyright management and digital content licensing services and other related investments and general working capital of the Group; (ii) the expected net proceeds from the warrant subscription of approximately HK\$0.20 million will be applied as general working capital of the Group; and (iii) the expected net proceeds from the exercise of warrants of approximately HK\$84.456 million will be applied towards the business development of digital copyright management and digital content licensing services and other related investments and general working capital of the Group.

LETTER FROM VEDA CAPITAL

In view that the financial results of Far Glory Group will be consolidated into the Group's results and hence improvement on the Far Glory Group's performance will have a direct positive impact on the consolidated accounts of the Group, we consider the expansion and development of Far Glory Group are highly correlated with the Group's financial performance in particular the digital licensing and copyright management business and the e-Learning business are the major business segments of the Group.

Thus, taking into account (i) the ground works for co-operations to create an unprecedented digital copyright management industry in the PRC were laid down and the digital licensing and copyright management business of the Group has already fully launched in 2010; (ii) the optimistic prospect of Far Glory Group as supported by (a) the Service Agreement, the Music Authorization, the Entertainment Audio Authorization I and the Entertainment Audio Authorization II; (b) as advised by the Company, over one million related download/trial rates hit has been recorded for the Uploads within one month since the Formal Launch in April 2010 and the upcoming stages of Installation and Provision of Services are expected to be completed within 2010; and (c) the Telecommunication Agreement and the infrastructure and backbone of the e-License digital copyright management system for the 2.5G and 3G mobile telecommunication networks of the major telecommunication operator has completed and the system is in a ready-to-launch mode; and (iii) the procuring of authorization from the major record labels for the provision of licensed audio entertainment contents to Baidu Internet Portal (百度網站) and the major telecommunication operators in the PRC would become one of the key revenue generating factors for the Far Glory Group and the Group as a whole, we consider it is commercially justifiable for the Group to provide financial supporting to the Far Glory Group for its operation and business development in order to enjoy the positive impacts brought by the expansion and development of the Far Glory Group to the Group.

In addition, notwithstanding Far Glory and its ultimate beneficial owners (Mr. Lau Kim Hung, Jack, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Lam Hing Lun, Alain, Mr. Yip Yung Kan and Mr. Wong Ming Kerry) have not given any guarantee and/or security for the Revised Revolving Facility, we concur with the Directors that the use of the Revised Revolving Facility by Far Glory is properly safeguarded given the factors (the "**Factors**") that (i) all directors of Far Glory are nominated by the Company; (ii) the Company has over 50% voting rights of Far Glory; (iii) the Revised Revolving Facility is restricted to finance the general working capital requirements and the digital copyright management system and digital content licensing business of the Far Glory Group; and (iv) an annual review of the Revised Revolving Facility shall be conducted by the Company and the Company has the overriding right to determine whether to continue to grant further facility, request for repayment of facility.

In light of above and given the Loan Agreement (as supplemented by the Supplemental Agreement) will enhance the income sources of the Group through the interest income incurred from the drawdown of the Revised Revolving Facility, we consider the Loan Agreement (as supplemented by the Supplemental Agreement) is in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM VEDA CAPITAL

2. Terms of the Loan Agreement

(a) *Interest*

As set out in the Board Letter, the interest would be one (1) per cent per annum above the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited (currently at 5% per annum), i.e. 6% per annum (the “**Interest Rate**”), which was arrived at after arm’s length negotiations between the Company and Far Glory and is better than the commercial lending rate charged by financial institutions (as the prime rate of financial institutions ranges from 5% to 5.25%).

As advised by the Company, the current saving rate of the Group’s deposit was approximately 0.017% per annum (the “**Saving Rate**”). Having consider (i) the Interest Rate is above the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited; (ii) the Interest Rate (which is equal to the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited plus one (1) per cent per annum) is better than the commercial lending rate generally charged by financial institutions ranged from 5% to 5.25%; and (iii) given the Interest Rate is higher than the Saving Rate, the Company will be able to earn a higher interest through the Loan Agreement (as supplemented by the Supplemental Agreement) than making deposit, we consider the Interest Rate (including the one (1) per cent per annum above the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited) is fair and reasonable so far as the Independent Shareholders are concerned.

(b) *Renewable*

As set out in the Board Letter, subject to the facility amount and the terms and conditions of the Loan Agreement (as supplemented by the Supplemental Agreement), any amount repaid prior to the expiry of the drawings availability period may be redrawn (the “**Redrawing Option**”).

Having considered the Interest Rate is above the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited and the redrawing of Revised Revolving Facility would incur interest income to the Company, we consider the Redrawing Option is in the interest of the Company and the Independent Shareholders.

In light of the above, we consider the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) is normal and commercial and in the interests of the Company and the Independent Shareholders as whole.

LETTER FROM VEDA CAPITAL

3. Possible financial effect

(a) *Net asset value*

As reported in the Interim Results Announcement, the unaudited consolidated net asset value of the Group as at 30 June 2010 was approximately HK\$135.09 million. As advised by the Company, the Loan Agreement (as supplemented by the Supplemental Agreement) would not have significant impact on the net assets of the Company. In view that the Loan Agreement (as supplemented by the Supplemental Agreement) would not have material impact on the total asset and total liabilities position of the Company, we concur with the Company that the Loan Agreement (as supplemented by the Supplemental Agreement) would not have significant impact on the net assets of the Company.

(b) *Earnings*

As advised by the Company, it is expected that the earnings of the Company will be enhanced by the interest income incurred from the drawdown of the Revised Revolving Facility and the optimistic prospect of Far Glory Group. Having considered the digital licensing and copyright management business of the Group has already fully launched in 2010 and the service agreement and the granted authorization as mentioned under the section headed "Information of the Group and Far Glory Group", we consider it is fair and reasonable to expect the future development and expansion of Far Glory Group would have a positive impact on the Group's earning in the future.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, in particular, taking into account that:

- (i) the financial results of Far Glory Group will be consolidated into the Group's results and hence improvement on the Far Glory Group's performance will have a direct positive impact on the consolidated accounts of the Group;
- (ii) the expansion and development of Far Glory Group are highly correlated with the Group's financial performance in particular the digital licensing and copyright management business and the e-Learning business are the major business segment of the Group;
- (iii) the ground works for co-operations to create an unprecedented digital copyright management industry in the PRC were laid down and the digital licensing and copyright management business of the Group has already fully launched in 2010;
- (iv) the optimistic prospect of Far Glory Group as supported by (a) the Service Agreement, the Music Authorization, the Entertainment Audio Authorization I and the Entertainment Audio Authorization II; (b) as advised by the Company, over one million related download/trial rates hit has been recorded for the Uploads within one month since the Formal Launch

LETTER FROM VEDA CAPITAL

in April 2010 and the upcoming stages of Installation and Provision of Services are expected to be completed within 2010; and (c) the Telecommunication Agreement and the infrastructure and backbone of the e-License digital copyright management system for the 2.5G and 3G mobile telecommunication networks of the major telecommunication operator has completed and the system is in a ready-to-launch mode;

- (v) the procuring of authorization from the major record labels for the provision of licensed audio entertainment contents to Baidu Internet Portal (百度網站) and the major telecommunication operators in the PRC would become one of the key revenue generating factors for the Far Glory Group and the Group as a whole;
- (vi) the use of the Revised Revolving Facility by Far Glory Group would be safeguarded by the Factors;
- (vii) the Loan Agreement (as supplemented by the Supplemental Agreement) will enhance the income sources of the Group through the interest income incurred from the drawdown of the Revised Revolving Facility;
- (viii) the Interest Rate is above the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited; and
- (ix) given the Interest Rate is higher than the Saving Rate, the Company will be able to earn a higher interest through the Loan Agreement (as supplemented by the Supplemental Agreement) than making deposit,

notwithstanding that we consider the Loan Agreement (as supplemented by the Supplemental Agreement) is not in the ordinary course of business of the Company, we are of the view that (i) the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Loan Agreement (as supplemented by the Supplemental Agreement) and the terms thereof are in the interests of the Company and the Independent Shareholders as a whole. We would therefore recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Loan Agreement (as supplemented by the Supplemental Agreement) to be proposed at the EGM.

Yours faithfully,

For and on behalf of

Veda Capital Limited

Hans Wong
Chairman

Julisa Fong
Managing Director

1. 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.

2. SHARE CAPITAL

Authorised		<i>HK\$</i>
<u>4,000,000,000</u>	Shares	<u>200,000,000.00</u>
Issued, fully paid or credited as fully paid		
<u>2,071,585,643</u>	Shares in issue as at the Latest Practicable Date	<u>103,579,282.15</u>

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of 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 Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Interest in Shares:

Name of Director	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Mr. Pang Hong Tao	42,800,000 (L)	Beneficial owner	2.07
Mr. Ma She Shing, Albert	28,870,000 (L)	Beneficial owner	1.39
Ms. Au Shui Ming, Anna	54,500,000 (L)	Beneficial owner	2.63
Mr. Hsu Tung Sheng	19,000,000 (L)	Beneficial owner	0.92

L: Long Position

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the share of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed 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 referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' and other persons' interests in Shares and underlying shares

As at the Latest Practicable Date, the interests and short positions of persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Mr. Lau Kim Hung, Jack <i>(Note 1)</i>	410,698,238 (L)	Interest of controlled corporation	19.83
	6,000,000 (L)	Deemed	0.29
Ms. Chan Yiu Kan Katie <i>(Note 1)</i>	6,000,000 (L)	Beneficial owner	0.29
	410,698,238 (L)	Deemed	19.83
Manciple Enterprises Limited <i>(Note 1)</i>	395,698,238 (L)	Beneficial owner	19.10
Eagle Strategy Limited <i>(Note 1)</i>	15,000,000 (L)	Beneficial owner	0.72
Mr. Hsu Tung Chi <i>(Note 2)</i>	141,222,222 (L)	Beneficial owner	6.82
	344,202,127 (L)	Deemed	16.61
Ms. Chuang Meng Hua <i>(Note 2)</i>	485,424,349 (L)	Deemed	23.43
Daily Technology Company Limited <i>(Note 2)</i>	344,202,127 (L)	Beneficial owner	16.61

L: Long Position

Notes:

1. Manciple Enterprises Limited (“Manciple”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“Mr. Lau”). Manciple beneficially owns 395,698,238 Shares. Under the SFO, Mr. Lau is deemed to be interested in 395,698,238 Shares. Mr. Lau is also deemed to be interested in 15,000,000 Shares owned by Eagle Strategy Limited, which is wholly and beneficially owned by Mr. Lau.

Ms. Chan Yiu Kan Katie (“Ms. Chan”), the wife of Mr. Lau, is personally interested in 6,000,000 Shares. Being spouses, Mr. Lau and Ms. Chan are deemed to be interested in their respective shareholding in the Company under the SFO.

2. Mr. Hsu Tung Chi beneficially owns 19,000,000 Shares. Daily Technology Company Limited (“Daily Technology”) is beneficially owned as to 98% by Mr. Hsu Tung Chi. Daily Technology beneficially owns 58,000,000 Shares. Under the SFO, Mr. Hsu Tung Chi is deemed to be interested in 58,000,000 Shares.

According to the sale and purchase agreement entered into among Cheer Plan Limited (“Cheer Plan”), a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will allot a maximum of 222,222,222 convertible notes to Mr. Hsu Tung Chi. During the reporting year, 100,000,000 convertible notes were redeemed by the Company. As at the Latest Practicable Date, there were 122,222,222 convertible notes outstanding.

Pursuant to the agreement entered into among Cheer Plan and Daily Technology on 8 October 2009, the Company has allotted 286,202,127 convertible notes to Daily Technology. Under the SFO, Mr. Hsu is deemed to be interested in 286,202,127 convertible notes.

Ms. Chuang Meng Hua is deemed to be interested in the aforesaid Shares and convertible notes of the Company by virtue of her being the spouse of Mr. Hsu Tung Chi.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), 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, or, who was directly or indirectly interested in 5% 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.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

5. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Veda Capital	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity pursuant to the SFO

As at the Latest Practicable Date, Veda Capital 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 2008, 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 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 was given and was not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial and trading position of the Group as at 31 December 2009, the date to which the latest published audited financial statements of the Group were made up.

7. INTEREST 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 is a party and in which any Director has a material interest, whether directly or indirectly, subsist at the date of this circular.

None of the Directors and expert referred in the paragraph headed "Qualification and consent of expert" in this appendix has any direct or indirect interest in any asset which has 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 2009, the date to which the latest published audited consolidated financial statements of the Group were compiled, up to and including the Latest Practicable Date.

8. 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.

9. 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, 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 Agreement; and
- (b) the Supplemental Agreement.

NOTICE OF THE EGM



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of the shareholders 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 Friday, 3 September 2010 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

“THAT

- (a) the conditional loan agreement date 11 February 2010 as supplemented by a supplemental agreement date 23 July 2010 (the “**Agreement**”) and entered into between the Company as lender and Far Glory Limited as borrower in relation to a revolving facility with a maximum amount of HK\$40 million (a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Board of
China Digital Licensing (Group) Limited
Pang Hong Tao
Chairman

Hong Kong, 13 August 2010

NOTICE OF THE EGM

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. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. A form of proxy for use of the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
4. In the case of joint holders of Shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such Shares as if he was solely entitled thereto, but if more than one such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.