
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)

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

Financial Adviser to the Company



INCU Corporate Finance Limited

Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders

VEDA | CAPITAL
智 略 資 本

A letter from the independent board committee (the “Independent Board Committee”) of the board of directors of the Company is set out on page 24 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 25 to 36 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 Monday, 23 May 2011 at 11:00 a.m. is set out on pages 44 to 45 of this circular. A form of proxy for use at the extraordinary general meeting of the Company is enclosed with this circular.

Whether or not you are able to attend the extraordinary general meeting of the Company, 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 of the Company 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 of the Company 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.

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:

“2011 Actual Profit”	the actual audited consolidated net profits after tax of the Far Glory Group for the financial year ending 31 December 2011
“Agreement”	the conditional agreement dated 5 May 2008 entered into among the Purchaser, the Vendor and the Guarantor in relation to the acquisition of 12% shareholding interests in Far Glory, the completion of which has taken place on 20 June 2008
“Average Actual Profit”	the actual average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2011 and 31 December 2012
“Board”	the board of Directors
“Bondholder(s)”	holders of the First Tranche Convertible Bond or the Extra Convertible Bond
“Business Day(s)”	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Circular”	the circular of the Company dated 30 May 2008 in relation to the acquisition of 12% shareholding interests in Far Glory
“Code”	The Hong Kong Code on Takeovers and Mergers
“Company”	China Digital Licensing (Group) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Conversion Price”	the initial conversion price of HK\$0.18 per Conversion Share or as the case may be, per Extra Conversion Share, subject to adjustments, pursuant to the terms of the First Tranche Convertible Bond and the Extra Convertible Bond
“Conversion Shares”	new Shares to be allotted and issued upon the exercise of the conversion rights in respect of the First Tranche Convertible Bond
“Director(s)”	The director(s) of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Supplemental Agreement, the Supplemental Deed and the transactions contemplated thereunder
“Escrowed Convertible Bonds”	collectively, the First Tranche Convertible Bond and the Second Tranche Convertible Bond
“Escrowed Convertible Bonds Certificate”	bond certificates of HK\$4,000,000 and HK\$4,400,000 respectively issued pursuant to the First Tranche Convertible Bond and the Second Tranche Convertible Bond
“Extra Convertible Bond”	a convertible bond in the principal amount of HK\$18 million (maximum amount) to be issued by the Company to the Vendor pursuant to the Agreement (as amended by the Supplemental Agreement)
“Extra Conversion Shares”	new Shares to be allotted and issued upon the exercise of the conversion rights in respect of the Extra Convertible Bond
“Far Glory”	Far Glory Limited, a company incorporated in the British Virgin Islands
“Far Glory Group”	Far Glory and its subsidiaries
“First Tranche Convertible Bond”	a convertible bond in the principal amount of HK\$4,000,000 issued on 20 June 2008 by the Company and in favour to the Vendor pursuant to the Agreement (as amended by the Supplemental Agreement)
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Hsu Tung Sheng
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“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 Supplemental Agreement, the Supplemental Deed 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 Supplemental Agreement, the Supplemental Deed and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than the Vendor, the Guarantor and Mr. Lau Kim Hung, Jack (a substantial Shareholder who is interested in approximately 19.91% equity interests in Far Glory) and their respective associates
“Latest Practicable Date”	28 April 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“New Average Guaranteed Profit”	the average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2011 and 31 December 2012 will not be less than HK\$15,000,000
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Purchaser”	Cheer Plan Limited, a wholly-owned subsidiary of the Company
“Second Tranche Convertible Bond”	a convertible bond in the principal amount of HK\$26,903,000 issued by the Company on 16 December 2009 in favour of Daily Technology Company Limited (98% equity interests of which is owned by the Vendor) pursuant to the agreement in relation to the acquisition of 21.57% equity interests in Far Glory, of which convertible bond of principal amount of HK\$4,400,000 will be escrowed by the Purchaser pursuant to the terms of the Supplemental Agreement
“Shares”	ordinary shares of HK\$0.05 each in the capital of the Company

DEFINITIONS

“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the conditional supplemental agreement dated 1 April 2011 (after trading hours) entered into among the Purchaser, the Vendor and the Guarantor in relation to, among others, the extension of the time for fulfilment of the agreed guaranteed profit
“Supplemental Deed”	a supplemental deed to be executed by way of deed to extend the maturity date of the First Tranche Convertible Bond to 31 December 2014
“Vendor”	Mr. Hsu Tung Chi
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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 (*Chairman*)
Mr. Hsu Tung Chi (*Chief Executive Officer*)
Mr. Pang Hong Tao
Ms. Au Shui Ming, Anna

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

4 May 2011

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the announcement of the Company dated 6 May 2008 and the Circular. Reference is also made to the announcements of the Company dated 18 February 2011 and 1 April 2011 in relation to, among other matters, the possible extension of the time for fulfillment of the agreed guaranteed profit. Unless otherwise stated herein, terms used in the Circular shall have the same meaning as used herein.

LETTER FROM THE BOARD

Sequence of acquisition of Far Glory:

The first acquisition: On 14 April 2008, the Purchaser entered into a conditional subscription agreement (the “**First Acquisition Agreement**”) with Far Glory to subscribe approximately 8.26% of the entire issued share capital of Far Glory as enlarged by the allotment and issue of the 900 new subscription shares of Far Glory at a total consideration of HK\$20,250,000 in cash. The first acquisition was completed on 21 April 2008.

The second acquisition: On 5 May 2008, the Purchaser, the Vendor and the Guarantor entered into the Agreement, pursuant to which the Purchaser shall purchase and the Vendor shall sell, the 1,308 Far Glory shares (12% equity interests of Far Glory) at a maximum total consideration of HK\$45,000,000 of which HK\$27,000,000, being the Basic Consideration was settled by the Group in the following manner: (i) cash of HK\$5,000,000; and (ii) convertible bond of HK\$22,000,000, of which the First Tranche convertible Bond forms a part and as the unsettled portion of the basic consideration. The remaining balance of the total consideration excluding the basic consideration, being a maximum of HK\$18,000,000 to be settle by issuing extra convertible bond. Under the Agreement, the Vendor irrevocably warrants and the Guarantor irrevocably guarantees to the Purchaser that the average of the audited consolidated net profits after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 December 2009 and 31 December 2010 will not be less than HK\$15,000,000. The second acquisition was completed on 20 June 2008.

The third acquisition: On 14 August 2009, the Purchaser, entered into a conditional agreement (the “**Third Acquisition Agreement**”) with Mr. Yuan Sheng Jun as vendor, pursuant to which the Purchaser shall purchase and Mr. Yuan Sheng Jun shall sell, the 1,000 Far Glory shares, which represents approximately 9.17% of the total issued share capital of Far Glory, for a total consideration of HK\$13,755,000. The consideration was settled by issuing 146,329,787 new consideration Shares at an issue price of approximately HK\$0.094 per consideration Share. No profit guarantee was provided by Mr. Yuan Sheng Jun. The third acquisition was completed on 28 September 2009.

The fourth acquisition: Pursuant to a conditional agreement dated 8 October 2009 (as supplemented by a supplemental agreement dated 15 October 2009) (the “**Fourth Acquisition Agreement**”), the Purchaser shall purchase and the Vendor shall sell, the 2,351 Far Glory shares, which represents approximately 21.57% of the total issued share capital of Far Glory, for a total consideration of HK\$32,355,000. The consideration was settled by: as to HK\$5,452,000 by issuing 58,000,000 consideration Shares at an issue price of approximately HK\$0.094 per consideration Share; and as to HK\$26,903,000 by issuing convertible bond in the principal amount of HK\$26,903,000 with conversion rights to convert into 286,202,127 conversion Shares at the conversion price of HK\$0.094 per conversion Share. No profit guarantee was provided by the Vendor. The fourth acquisition was completed on 16 December 2009.

As set out in the Agreement, the Vendor has warranted and the Guarantor has guaranteed in favour of the Group that the average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ended 31 December 2009 and 31 December 2010 will not be less than HK\$15,000,000. In accordance with the Agreement, if the actual average of the audited consolidated

LETTER FROM THE BOARD

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

Based on the audited accounts of the Far Glory Group for the years ended 31 December 2009 and 2010, the audited consolidated loss of the Far Glory Group for the two years ended 31 December 2009 and 31 December 2010 were approximately HK\$833,000 and HK\$11,800,000 respectively, hence, the average of the audited consolidated net loss after tax of the Far Glory Group for the financial years ended 31 December 2009 and 31 December 2010 is approximately HK\$6,300,000, and accordingly, the Shortfall of approximately HK\$21,300,000 was recorded. The Shortfall is mainly the result of the delay in the business development of the Far Glory Group during 2009 and 2010.

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

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

THE SUPPLEMENTAL AGREEMENT

Signing parties

Date:	1 April 2011 (after trading hours)
Parties:	
Purchaser:	the Purchaser, a wholly-owned subsidiary of the Company
Vendor:	Mr. Hsu Tung Chi, an executive Director and the chief executive officer of the Company, therefore a connected person of the Company as at the date of the Supplemental Agreement
Guarantor:	Mr. Hsu Tung Sheng, an executive Director and the chairman of the Company, therefore a connected person of the Company as at the date of the Supplemental Agreement

LETTER FROM THE BOARD

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

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

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

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

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

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

LETTER FROM THE BOARD

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

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

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

LETTER FROM THE BOARD

The amount of the Escrowed Convertible Bonds was determined after consideration of (i) the unsettled portion of the Basic Consideration, i.e. the First Tranche Convertible Bonds under escrow was not enough as a security under the revised terms of the Supplemental Agreement; (ii) further security was needed for the possible compensation to the Company in terms of the amount of the Basic Consideration; (iii) the market value of the First Tranche Convertible Bonds and the Second Tranche Convertible Bonds were approximately HK\$8,778,000 and HK\$18,489,000 respectively as calculated with reference to the closing price per Share as at the date of the Supplemental Agreement of HK\$0.395 which is more or less equal to the amount of the Basic Consideration.

The Second Tranche Convertible Bonds was issued by the Company on 16 December 2009 and was held by Daily Technology Company Limited (a company owned by the Vendor as to 98% equity interests) since then. Pursuant to the Supplemental Agreement, subject to the completion of the Supplemental Agreement, the Vendor will procure that the Second Tranche Convertible Bonds in the principal amount of HK\$4,400,000 will be returned by the Daily Technology Company Limited to the Company for escrow arrangement.

Revised consideration adjustment mechanism

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

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

If the Average Actual Profit is a loss, then the Average Actual Profit will be deemed as zero for the sake of calculating the amount of compensation. The maximum amount of the compensation payable by the Vendor to the Purchaser is the Basic Consideration of HK\$27 million.

The Company will publish an announcement in accordance with the GEM Listing Rules if Far Glory fails to achieve the New Average Guaranteed Profit or 2011 Actual Profit is less than HK\$30,000,000 and will include details of the New Average Guaranteed Profit or 2011 Actual Profit in its next published annual report and accounts. The independent non-executive Directors will provide an opinion in the Company's next published annual report and accounts as to whether the Vendor and the Guarantor have fulfilled their obligations under the guarantee.

Conditions precedent

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

LETTER FROM THE BOARD

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

Completion

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

CHANGE OF TERMS OF THE FIRST TRANCHE CONVERTIBLE BOND

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

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

Issuer

The Company

Principal amount

HK\$4,000,000

Interest

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

Extended Maturity

From the date of issue, i.e. 20 June 2008 to 31 December 2014

Conversion

Pursuant to the Supplemental Agreement, the First Tranche Convertible Bond will be delivered to the Purchaser upon the fulfillment of the New Average Guaranteed Profit or when the 2011 Actual Profits is equal to or greater than HK\$30,000,000.

LETTER FROM THE BOARD

The Bondholder may convert the whole or part (in multiples of HK\$1,000,000) of the First Tranche Convertible Bond of HK\$4,000,000, which will be delivered to the Purchaser upon the fulfillment of the New Average Guaranteed Profit or the 2011 Actual Profits is equal to or greater than HK\$30,000,000, into the Conversion Shares at the Conversion Price for the period commencing from (1) the date when the New Average Guaranteed Profit has been fulfilled or the 2011 Actual Profit is equal to or greater than HK\$30,000,000 or (2) if there is any shortfall between Average Actual Profit and the New Average Guaranteed Profit, the date when the Purchaser is fully compensated by the Vendor for any shortfall pursuant to the Supplemental Agreement up to the extended maturity date of the First Tranche Convertible Bond.

Conversion restrictions

As stated in the announcement of the Company dated 15 October 2009, under the terms of the convertible bond in the principal amount of HK\$25,903,000, the aggregate shareholdings of the Vendor and its concert parties upon any conversion of such convertible bond or any other previous convertible securities (including the First Tranche Convertible Bond and the Extra Convertible bond) must not exceed 29.99% or more of the issued share capital of the Company on the date of the conversion and that any conversion will not trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor. The Vendor shall by notice inform the Company and request to convert the convertible bond and the Company will not issue the conversion shares to the Vendor if the aggregate shareholding of the Vendor and its concert parties upon any conversion of the convertible bonds or any other previous convertible securities (including the First Tranche Convertible Bond and the Extra Convertible bond) exceeds 29.99% or more of the issued share capital of the Company.

Conversion Price

The Conversion Price is HK\$0.18 per Conversion Share subject to adjustments.

The adjustments for Conversion Price include the following:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;
- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;
- (iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);

LETTER FROM THE BOARD

- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 70% of the market price on the date of announcement of the terms of the issue of such securities; and
- (vi) an issue of Shares wholly for cash at a price per Share which is less than 70% of the market price on the date of announcement of the terms of such issue.

The Company will issue an announcement when there is any adjustment to the Conversion Price and the adjustment will be certified by the Company's auditor or by merchant bank.

Conversion Shares

Assuming there is an immediate exercise in full of the conversion rights attaching to the First Tranche Convertible Bond in the aggregate principal amount of HK\$4,000,000 at the Conversion Price by the Bondholder, the Company will issue an aggregate of 22,222,222 Conversion Shares, representing (i) approximately 1.01% of the existing issued share capital of the Company; and (ii) approximately 1.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

Early redemption

The Company may, at its discretion, redeem the First Tranche Convertible Bond of HK\$4,000,000 in whole or in part in multiples of HK\$1,000,000 at any time commencing from (1) the date when the New Average Guaranteed Profit has been fulfilled or the 2011 Actual Profit is equal to or greater than HK\$30,000,000 or (2) if there is any shortfall between Average Actual Profit and the New Average Guaranteed Profit, the date when the Purchaser is fully compensated by the Vendor for any shortfall(s) pursuant to the Supplemental Agreement to the extended maturity date of the First Tranche Convertible Bond.

Ranking

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

Transferability

The First Tranche Convertible Bond may be transferred or assigned by the Bondholder to any party other than a connected person of the Company. The transferability of the First Convertible Bond will be effective upon delivery of the same to the Vendor (1) on the date when the New Average Guaranteed Profit has been fulfilled or the 2011 Actual Profit is equal to or greater than HK\$30,000,000 or (2) if there is any shortfall between Average Actual Profit and the New Average Guaranteed Profit, the date when the Purchaser is fully compensated by the Vendor for any shortfall pursuant to the Supplemental Agreement up to the extended maturity date of the First Tranche Convertible Bond.

LETTER FROM THE BOARD

Voting rights

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

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

Application for listing

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

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

TERMS OF THE EXTRA CONVERTIBLE BOND

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

Issuer

The Company

Maximum principal amount

Up to HK\$18,000,000

Interest

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

Maturity

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

Conversion

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

LETTER FROM THE BOARD

Conversion restrictions

As stated in the announcement of the Company dated 15 October 2009, under the terms of the convertible bond in the principal amount of HK\$26,903,000, the aggregate shareholdings of the Vendor and its concert parties upon any conversion of such convertible bond or any other previous convertible securities (including the First Tranche Convertible Bond and the Extra Convertible bond) must not exceed 29.99% or more of the issued share capital of the Company on the date of the conversion and that any conversion will not trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor. The Vendor shall by notice inform the Company and request to convert the convertible bond and the Company will not issue the conversion shares to the Vendor if the aggregate shareholding of the Vendor and its concert parties upon any conversion of the convertible bonds or any other previous convertible securities (including the First Tranche Convertible Bond and the Extra Convertible bond) exceeds 29.99% or more of the issued share capital of the Company.

Conversion Price

The Conversion Price is HK\$0.18 per Extra Conversion Share. The Company will issue an announcement when there is any adjustment to the Conversion Price (the adjustments for the Conversion Price is the same as the adjustment of Conversion Price of the First Tranche Convertible Bond as stated on pages 12 and 13 of this circular) and the adjustment will be certified by the Company's auditor or by the merchant bank.

Extra Conversion Shares

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

Early redemption

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

Ranking

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

Transferability

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

LETTER FROM THE BOARD

Voting rights

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

Application for listing

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

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

CHANGES IN SHAREHOLDING STRUCTURE

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

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

LETTER FROM THE BOARD

warrants, the convertible bond in the principal amount of HK\$26,903,000 with conversion rights to convert into 286,202,127 Shares at the conversion price of HK\$0.094, the First Tranche Convertible Bond and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares:

Shareholders	As at the Latest Practicable Date		Immediately after full conversion of the First Tranche Convertible Bonds into the Conversion Shares		Immediately after full conversion of the First Tranche Convertible Bonds and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares		Immediately after exercise of 98,000,000 options and full conversion of 290,500,000 warrants, partial conversion of the convertible bond in the principal amount of HK\$26,903,000, of which principal amount of HK\$10,481,000 with conversion rights to convert into 111,500,000 Shares at the conversion price of HK\$0.094, and full conversion of the First Tranche Convertible Bond and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares immediately before triggering a mandatory general offer obligation under the present provision of the Code (Note 6)		Immediately after exercise of 98,000,000 options and full conversion of 290,500,000 warrants, the convertible bond in the principal amount of HK\$26,903,000 with conversion rights to convert into 286,202,127 Shares at the conversion price of HK\$0.094, the First Tranche Convertible Bond and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares (Note 7)	
	Number of Approximate Shares		Number of Approximate Shares		Number of Approximate Shares		Number of Approximate Shares		Number of Approximate Shares	
		%		%		%		%		%
Manciple Enterprises Limited (Note 1)	482,698,238	21.99%	482,698,238	21.77%	482,698,238	20.83%	482,698,238	17.13%	482,698,238	16.13%
Eagle Strategy Limited (Note 1)	15,000,000	0.68%	15,000,000	0.68%	15,000,000	0.65%	15,000,000	0.53%	15,000,000	0.50%
Ms. Chan Yiu Kan Katie (Note 1)	4,500,000	0.21%	4,500,000	0.20%	4,500,000	0.19%	4,500,000	0.16%	4,500,000	0.15%
Subtotal	502,198,238	22.88%	502,198,238	22.65%	502,198,238	21.67%	502,198,238	17.83%	502,198,238	16.78%
Directors										
Hsu Tung Sheng (Note 2)	19,000,000	0.87%	19,000,000	0.86%	19,000,000	0.82%	34,000,000	1.20%	34,000,000	1.14%
Hsu Tung Chi (Note 3)	60,070,000	2.74%	82,292,222	3.74%	182,292,222	7.87%	308,792,222	10.96%	483,494,349	16.16%
Subtotal	79,070,000	3.61%	101,292,222	4.60%	201,292,222	8.69%	342,792,222	12.16%	517,494,349	17.30%
Pang Hong Tao (Note 4)	42,800,000	1.95%	42,800,000	1.93%	42,800,000	1.85%	50,800,000	1.80%	50,800,000	1.70%
Au Shui Ming, Anna (Note 5)	54,500,000	2.48%	54,500,000	2.46%	54,500,000	2.35%	62,500,000	2.22%	62,500,000	2.09%
Subtotal	97,300,000	4.43%	97,300,000	4.39%	97,300,000	4.20%	113,300,000	4.02%	113,300,000	3.79%
Public	1,516,517,405	69.09%	1,516,517,405	68.39%	1,516,517,405	65.44%	1,859,017,405	65.99%	1,859,017,405	62.13%
Total	2,195,085,643	100.00%	2,217,307,865	100.00%	2,317,307,865	100.00%	2,817,307,865	100.00%	2,992,009,992	100.00%

LETTER FROM THE BOARD

Notes:

1. Manciple Enterprises Limited (“Manciple”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“Mr. Lau”). Manciple beneficially owns 482,698,238 Shares. Under the SFO, Mr. Lau is deemed to be interested in 482,698,238 Shares. Mr. Lau is also deemed to be interested in 15,000,000 Shares owned by Eagle Strategy Limited, which is wholly and beneficially owned by Mr. Lau. Ms. Chan Yiu Kan Katie (“Ms. Chan”), the wife of Mr. Lau, is personally interested in 4,500,000 Shares. Being spouses, Mr. Lau and Ms. Chan are deemed to be interested in their respective shareholding in the Company under the SFO.
2. Mr. Hsu Tung Sheng is an executive Director and chairman of the Company, being the Guarantor under the Supplemental Agreement.
3. Mr. Hsu Tung Chi is an executive Director and chief executive officer of the Company, being the Vendor under the Supplemental Agreement.
4. Mr. Pang Hong Tao is an executive Director.
5. Ms. Au Shui Ming, Anna is an executive Director.
6. The shareholding structure is prepared for illustration purpose only and assuming (i) after the exercise of 98,000,000 options and full conversion of 290,500,000 warrants; (ii) partial conversion of the convertible bond in the principal amount of HK\$26,903,000, of which principal amount of HK\$10,481,000 with conversion rights to convert into 111,500,000 Shares at the conversion price of HK\$0.094; (iii) and the full conversion of the First Tranche Convertible Bond and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares, with the aggregate shareholdings of the Vendor and its concert parties does not exceed 29.99% or more of the issued share capital of the Company on the date of the Conversion nor will it trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor.
7. The shareholding structure is prepared for illustration purpose only, yet, the Company will not issue the conversion shares to the Vendor because subject to the conversion restrictions of the convertible bonds in the principal amount of HK\$26,903,000, the aggregate shareholding of the Vendor and its concert parties upon any conversion of the convertible bonds in the principal amount of HK\$26,903,000 will not exceed 29.99% or more of the issue share capital of the Company.

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

REASONS FOR THE SUPPLEMENTAL AGREEMENT

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

The Far Glory Group is principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

LETTER FROM THE BOARD

In 2008, as stated in the circular of the Company dated 23 November 2007, the negotiations with the telecommunication operators in the PRC have taken longer time than expected due to restructuring of the telecommunication industry and the resulted changes in personnel in 2008 and the negotiations with other potential business partners, such as major record labels have also been delayed mainly due to the global financial tsunami in the second half of 2008 and their respective business plans have been hold back due to negative changes in the global business environment.

In 2009, the negotiations with the telecommunication operators in the PRC as well as the major international record labels were gradually resumed. By the end of the year 2009, in view of the business development and prospects of the Far Glory Group as mentioned in the circular of the Company dated 23 November 2009, the increasing emphasis on anti-privacy placed by the PRC Government in early 2009, the growing popularity of Internet and mobile for entertainment purpose and the introduction of 3G in the PRC, the Company decided to acquire a further 21.57% equity interests in the digital licensing and copyright management business of the Far Glory Group in October 2009 and the Far Glory Group then became a 51% subsidiary of the Group. As mentioned in the annual report of the Company for the year ended 31 December 2009, the ground works for the digital copyright management business in the PRC was laid down and is expected to generate revenue in the year 2010. In the same year, the Far Glory Group has obtained authorisations from two major record labels, avex and Warner/Chappell, for the provision of licensed audio entertainment contents.

In 2010, the licensed audio entertainment contents has been provided to Baidu Internet Portal (百度網站) and two of the major telecommunication operators (one of them is China Unicom) in the PRC. Same arrangements are also finalized with other major record labels. The Far Glory Group will also collaborate with China Audio-video Copyright Association (中國音像著作權集體管理協會) to set up a national music and video database and will continue to obtain authorizations from other major record labels for music contents.

As stated in the announcement of the Company dated 18 February 2011, due to much longer than expected negotiation process between the Far Glory Group and the telecommunication operators as well as major record labels for the provision of licensed music content on the mobile music platform on an exclusive basis in the PRC (which has been elaborated as above), there has been unexpected delay in the business development of the Far Glory Group.

However, as disclosed in the 2010 annual results announcement of the Company dated 29 March 2011, the recent business development of the Far Glory Group has achieved significant breakthroughs. The Far Glory Group officially signed an exclusive cooperation agreement in December 2010 with OneStop China Limited (“OSC”), the joint venture established by Universal, Warner and Sony, in relation to obtaining the exclusive license for the provision of the music licensed by the top three record labels on the music platform of China Unicom. Up to 450,000 pieces of music content are retrieved from domestic and overseas music libraries.

In February 2011, the Far Glory Group formally launched the music contents licensed by OSC on the music platform of China Unicom. By the end of March 2011, several thousands of the latest and the most popular licensed songs have been uploaded by the Far Glory Group, including songs from Chinese artists like Eason Chan (陳奕迅), Faye Wong (王菲), Khalil Fong (方大同), Jam Hsiao

LETTER FROM THE BOARD

(蕭敬騰), Leehom Wang (王力宏) and Rainie Yang (楊丞琳) and international artists like Lady Gaga, Michael Jackson and Mariah Carey. Most of these songs are the nationwide hit of the weekly pop chart of China Unicom.

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

The Far Glory Group has started generating revenue when the digital copyright management business rolled out in the PRC in early 2010. By virtue of the agreement between China Unicom and Beijing YiLaiShen Technology Company Limited, Beijing YiLaiShen Technology Company Limited shares 50% from the provision of the digital copyright management business in the PRC. As the Far Glory Group has 50% equity interests in Beijing YiLaiShen Technology Company Limited, the Far Glory Group is expected to share 25% from the provision of the digital copyright management business in the PRC. The profit sharing ratio for the provision of digital licensing business on the mobile platform of China Unicom to be shared by the Far Glory Group is subject to formal statistics and reporting, it is difficult for the Group to determine an expected portion of mobile value added services income of China Unicom to be shared by the Far Glory Group as at the Latest Practicable Date. The Group is in final negotiation with China Unicom to determine an agreed portion of mobile value added services income of China Unicom to be shared by the Far Glory Group, it is expected both parties will reach an agreed sharing portion in the second quarter of 2011.

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

As the Supplemental Agreement was entered into among the Purchaser, the Vendor and the Guarantor for the sole purpose of extending the time for the fulfillment of the profit guarantee under the Agreement, save for necessary arrangements for the Escrow Convertible Bonds, i.e. the extension of maturity date of the First Tranche Convertible Bond under the Supplemental Agreement and the Supplemental Deed, other terms of the Agreement, the terms of the First Tranche Convertible Bond (including the Conversion Price and its adjustment factors) and the terms of the Extra Convertible Bond (including the Conversion Price and its adjustment factors) remain unchanged.

In view that (i) the New Average Guaranteed Profit is same as the guaranteed profit under the Agreement; (ii) if the Far Glory Group achieved the New Average Guaranteed Profit of HK\$15,000,000 or the 2011 Actual Profits is equal to or greater than HK\$30,000,000, the First Tranche Convertible Bond will only be released to the Vendor, the same arrangement under the Agreement; (iii) the extension of the time for the fulfillment of the agreed guaranteed profit would provide more time to each of

LETTER FROM THE BOARD

the Vendor and the Guarantor to further contribute their best efforts on the business development of the Far Glory Group to enhance its long-term prospects; (iv) the revised consideration adjustment mechanism by way of price to earnings ratio of 15 times with maximum amount of compensation equivalent to the Basic Consideration of HK\$27 million under the Supplemental Agreement; (v) the security and escrow arrangement (as mentioned above); (vi) the terms of the Extra Convertible Bond and the settlement mechanism by way of the Extra Convertible Bond of the Balance Consideration remains unchanged under the Supplemental Agreement; (vii) the settlement mechanism enables the Group to finance the Balance Consideration arising from higher profits of the Far Glory Group by issuing convertible bond which will not lead to immediate cash outflow of the Group, the Directors (including the independent non-executive Directors) are of the view that the terms of the Supplemental Agreement and the transactions contemplated thereunder (including the change of terms of the First Tranche Convertible Bond) other terms of the Agreement, the terms of the First Tranche Convertible Bond (including the Conversion Price and its adjustment factors) and the terms of the Extra Convertible Bond (including the Conversion Price and its adjustment factors) remain unchanged are fair and reasonable and the entering into of the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Vendor and the Guarantor are executive Directors. The Vendor is interested in 60,070,000 Shares, representing approximately 2.74% of the existing share capital of the Company. The Vendor is also interested in 15,000,000 share options and 308,424,349 convertible bonds of the Company. The Guarantor is interested in 19,000,000 Shares, representing 0.87% of the existing share capital of the Company and 15,000,000 share options of the Company. By virtue of being executive Directors of the Company, the Supplemental Agreement and the transactions contemplated thereunder (including the change of terms of the First Tranche Convertible Bond) constitute a non-exempt connected transaction of the Company under the Rule 20.17 of the GEM Listing Rules and are subject to the requirements of reporting, announcement and the approval of the Independent Shareholders at the EGM. The Vendor, the Guarantor, Mr. Lau Kim Hung, Jack (a substantial Shareholder who is interested in approximately 19.91% equity interests in Far Glory and together with his associate is interested in 502,198,238 shares, representing approximately 22.88% issued share capital of the Company as at the Latest Practicable Date) and their respective associates have to abstain from voting in relation to the Supplemental Agreement and the transactions contemplated thereunder at the EGM. Since both the Vendor and the Guarantor (being the executive Directors) have material interest in the Supplemental Agreement, both of them have abstained from voting on the board resolution in relation to the Supplemental Agreement.

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

LETTER FROM THE BOARD

EGM

Set out on pages 44 to 45 is a notice convening the EGM to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 23 May 2011 at 11:00 a.m. at which ordinary resolutions will be proposed to the Shareholders to consider and, if thought fit, approve the Supplemental Agreement, the Supplemental Deed 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.

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 Supplemental Agreement, the Supplemental Deed 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 Supplemental Agreement, the Supplemental Deed 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 Supplemental Agreement was entered into on normal commercial terms and that the terms of the Supplemental Agreement and the Supplemental Deed 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 resolutions which will be proposed at the EGM for approving the Supplemental Agreement, the Supplemental Deed and the transactions contemplated thereunder.

LETTER FROM THE BOARD

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 Supplemental Agreement and the Supplemental Deed 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 resolutions 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 24 of this circular which contains its views in relation to the Supplemental Agreement, the Supplemental Deed 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 Supplemental Agreement, the Supplemental Deed and transactions contemplated thereunder. The text of the letter from the Independent Financial Adviser is set out on pages 25 to 36 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
Hsu Tung Sheng
Chairman



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)

4 May 2011

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 4 May 2011 (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 Supplemental Agreement, the Supplemental Deed 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 25 to 36 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 23 of the Circular and the additional information set out in the appendix of the Circular.

Having considered the terms of the Supplemental Agreement and the Supplemental Deed, the principal reasons and factors considered by, and the advice of Veda Capital Limited, we are of the opinion that (i) the Supplemental Agreement, the Supplemental Deed and the transactions contemplated thereunder is on normal commercial terms and the terms of the Supplemental Agreement and the Supplemental Deed 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 ordinary resolutions to be proposed at the EGM to approve the Supplemental Agreement, the Supplemental Deed 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 Supplemental Agreement and the Supplemental Deed 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

4 May 2011

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

Dear Sirs,

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

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 Supplemental Agreement and the Supplemental Deed, details of which are set out in the circular to the Shareholders dated 4 May 2011 (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 Board Letter, pursuant to the Agreement, the Vendor has warranted and the Guarantor has guaranteed in favour of the Group that the average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ended 31 December 2009 and 31 December 2010 will not be less than HK\$15,000,000. In accordance with the Agreement, if the actual average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2009 and 31 December 2010 is less than HK\$15,000,000, the Vendor shall set off an amount, being the product of the Shortfall and the equity interests acquired by the Purchaser, against the face value of the First Tranche Convertible Bond with a principal amount of HK\$4,000,000 on a dollar to dollar basis. If the Shortfall exceeds the face value of the First Tranche Convertible Bond, the Vendor shall compensate the Group in cash of such excess. In case of non-fulfillment of the average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2009 and 31 December 2010 of not less than HK\$15,000,000, the Shortfall needs to be settled in accordance with the Agreement unless otherwise agreed.

LETTER FROM VEDA CAPITAL

Based on the audited accounts of the Far Glory Group for the years ended 31 December 2009 and 2010, the audited consolidated loss of the Far Glory Group for the two years ended 31 December 2009 and 31 December 2010 were approximately HK\$833,000 and HK\$11,800,000 respectively, hence, the average of the audited consolidated net loss after tax of the Far Glory Group for the financial years ended 31 December 2009 and 31 December 2010 is approximately HK\$6,300,000. Accordingly, the Shortfall of approximately HK\$21,300,000 was recorded. The Shortfall is mainly the result of the delay in the business development of the Far Glory Group during 2009 and 2010.

Having considered the business prospects of the Far Glory Group, on 1 April 2011, the Purchaser, the Vendor and the Guarantor have entered into the Supplemental Agreement for, among others, the extension of the time for the fulfillment of the agreed guaranteed profit (the “**Extension**”) and the amendment of certain terms of the Agreement.

As at the Latest Practicable Date, the Vendor and the Guarantor are executive Directors. The Vendor is interested in 60,070,000 Shares, representing approximately 2.74% of the existing share capital of the Company. The Vendor is also interested in 15,000,000 share options and 308,424,349 convertible bonds of the Company. The Guarantor is interested in 19,000,000 Shares, representing 0.87% of the existing share capital of the Company and 15,000,000 share options of the Company. By virtue of being executive Directors, the Supplemental Agreement and the transactions contemplated thereunder (including the change of terms of the First Tranche Convertible Bond) constitute a non-exempt connected transaction of the Company under the Rule 20.17 of the GEM Listing Rules and are subject to the requirements of reporting, announcement and the approval of the Independent Shareholders at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to (i) whether the Supplemental Agreement and the Supplemental Deed are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Supplemental Agreement and the Supplemental Deed are in the interests of the Company and the Independent Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Supplemental Agreement and the Supplemental Deed at the EGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee 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 when they were made and continue to be true at the date of this circular.

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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 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.

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 Supplemental Agreement, we have taken into consideration the following factors and reasons:

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

The Far Glory Group is principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC. As advised by the Company, as at the Latest Practicable Date, it is interested in approximately 51% shareholding interests in Far Glory.

2. Financial information of the Group

(i) Financial year ended 31 December 2009

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 323.47% as compared to the turnover from continuing operation for the year ended 31 December 2008 of approximately HK\$0.98 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.

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(ii) Financial year ended 31 December 2010

As set out in the annual report 2010 of the Company (the “AR 2010”) for the year ended 31 December 2010, the Group recorded turnover generated by the continuing operations of approximately HK\$6.97 million, representing an increase of approximately 68.02% from the turnover generated by the continuing operations for the year ended 31 December 2009 of approximately HK\$4.15 million. No revenue was generated from the discontinued operations for the year ended 31 December 2010. As set out in AR 2010, the increase in revenue was mainly contributed by the increase in sales of e-Learning business, driven by the successful launch of the e-Learning English enhancement programs in the third quarter of the year 2010.

The Group reported loss attributable to Shareholders of approximately HK\$21.45 million for the year ended 31 December 2010, representing an increase in loss of approximately 144.58% from that for the year ended 31 December 2009 of approximately HK\$8.77 million. As advised by the Company, the increase in loss was mainly due to the increase in administrative expenses as a result of the increase in (i) the share based payment arising from granting of share options which amounted to approximately HK\$10.32 million; and (ii) the impairment loss of deposits paid for the music contents in relation to the e-Licensing business which amounted to approximately HK\$10.74 million.

3. Reasons for the Supplemental Agreement

In 2008, as stated in the circular of the Company dated 23 November 2007, the negotiations with the telecommunication operators in the PRC have taken longer time than expected due to restructuring of the telecommunication industry and the resulted changes in personnel in 2008 and the negotiations with other potential business partners, such as major record labels have also been delayed mainly due to the global financial tsunami in the second half of 2008 and their respective business plans have been hold back due to negative changes in the global business environment.

In 2009, the negotiations with the telecommunication operators in the PRC as well as the major international record labels were gradually resumed. By the end of the year 2009, in view of the business development and prospects of the Far Glory Group as mentioned in the circular of the Company dated 23 November 2009, the increasing emphasis on anti-privacy placed by the PRC Government in early 2009, the growing popularity of Internet and mobile for entertainment purpose and the introduction of 3G in the PRC, the Company decided to acquire a further 21.57% equity interests in the digital licensing and copyright management business of the Far Glory Group in October 2009 and the Far Glory Group then became a 51% subsidiary of the Group. As mentioned in the annual report of the Company for the year ended 31 December 2009, the ground works for the digital copyright management business in the PRC was laid down and is expected to generate revenue in the year 2010. In the same year, the Far Glory Group has obtained authorisations from two major record labels, avex and Warner/Chappell, for the provision of licensed audio entertainment contents.

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In 2010, the licensed audio entertainment contents has been provided to Baidu Internet Portal (百度網站) and two of the major telecommunication operators (one of them is China Unicom) in the PRC. Same arrangements are also finalized with other major record labels. The Far Glory Group will also collaborate with China Audio-video Copyright Association (中國音像著作權集體管理協會) to set up a national music and video database and will continue to obtain authorizations from other major record labels for music contents.

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

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

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

The Far Glory Group has started generating revenue when the digital copyright management business rolled out in the PRC in early 2010. By virtue of the agreement between China Unicom and Beijing YiLaiShen Technology Company Limited, Beijing YiLaiShen Technology Company Limited shares 50% from the provision of the digital copyright management business in the PRC. As the Far Glory Group has 50% equity interests in Beijing YiLaiShen Technology Company Limited, the Far Glory Group is expected to share 25% from the provision of the

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digital copyright management business in the PRC. The profit sharing ratio for the provision of digital licensing business on the mobile platform of China Unicom to be shared by the Far Glory Group is subject to formal statistics and reporting, it is difficult for the Group to determine an expected portion of mobile value added services income of China Unicom to be shared by the Far Glory Group as at the Latest Practicable Date. The Group is in final negotiation with China Unicom to determine an agreed portion of mobile value added services income of China Unicom to be shared by the Far Glory Group, it is expected both parties will reach an agreed sharing portion in the second quarter of 2011.

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

As set out in the Board Letter, as the Supplemental Agreement was entered into among the Purchaser, the Vendor and the Guarantor for the sole purpose of extending the time for the fulfillment of the profit guarantee under the Agreement, save for necessary arrangements for the Escrow Convertible Bonds, i.e. the extension of maturity date of the First Tranche Convertible Bond under the Supplemental Agreement and the Supplemental Deed, other terms of the Agreement, the terms of the First Tranche Convertible Bond (including the Conversion Price and its adjustment factors) and the terms of the Extra Convertible Bond (including the Conversion Price and its adjustment factors) remain unchanged.

We noted from the Board Letter that, given the reasons as set out in the Board Letter, the Directors are of the view that the terms of the Supplemental Agreement and the transactions contemplated thereunder (including the change of terms of the First Tranche Convertible Bond) are fair and reasonable and the entering into of the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole.

As advised by the Company, immediately upon completion of the Agreement, the Company was interested in 20.26% of the issued shares of Far Glory and as at the Latest Practicable Date, the Company was interested in 51% of the issued shares of Far Glory. As set out in the Board Letter, based on the audited accounts of the Far Glory Group for the years ended 31 December 2009 and 2010, the average of the audited consolidated net loss after tax of the Far Glory Group for the financial years ended 31 December 2009 and 31 December 2010 is approximately HK\$6,300,000 (the “**Previous Average Actual Profit**”), and accordingly, the Shortfall of approximately HK\$21,300,000 was recorded. The Shortfall is mainly the result of the delay in the business development of the Far Glory Group during 2009 and 2010.

We noted from the circular of the Company dated 30 May 2008 in respect of the Agreement, if the Previous Average Actual Profit is less than HK\$15,000,000, then the Vendor shall set off against the payment obligations of the Company under the First Tranche Convertible Bond on a dollar to dollar basis in an amount calculated by Shortfall multiply by 12%, if such product amount is more than the outstanding principal amount of the First Tranche Convertible Bond, the Purchaser shall cancel the First Tranche Convertible Bond Certificate and any shortfall

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remaining after such set off and cancellation shall be paid by the Vendor to the Purchaser in cash. As advised by the Company, based on the abovementioned calculation mechanism and the Previous Average Actual Profit, the compensation would be approximately HK\$2.56 million (the “**Compensation**”) and shall be set off against the face value of the First Tranche Convertible Bond by cancellation of such bond (no cash inflow to the Company as compensation) under the Agreement if the Supplemental Agreement have not entered into among the Purchaser, the Vendor and the Guarantor to extend the time fulfillment of the New Average Guaranteed Profit.

We were also given to understand by the Company, the Vendor and the Guarantor are mainly responsible for strategic planning and overall management of the Far Glory Group. In view of the fact that the financial results of the Far Glory Group has been 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 Supplemental Agreement which extends the time for the fulfillment of the agreed guaranteed profit and the settlement of the Balance Consideration would provide more time to each of the Vendor and the Guarantor to further contribute their best efforts on the business development of the Far Glory Group in order to meet the New Average Guaranteed Profit.

We have reviewed the news article in relation to China Unicom and noted from an article from Sina Finance (<http://finance.sina.com.cn>) that there was an increase of approximately 11.32 million 3G subscribers in China Unicom for its financial year 2010 and the annual income of mobile value added services has been increased by 35.6% for its financial year 2010. In view that Far Glory Group is a music content supplier to China Unicom, we considered increase in 3G subscribers and revenue in mobile value added service in China Unicom may suggest a higher possibility that the music content uploaded by Far Glory onto the platform of China Unicom will be downloaded.

Having considered (i) the Supplemental Agreement which extends the time for the fulfillment of the agreed guaranteed profit and the settlement of the Balance Consideration would provide more time to each of the Vendor and the Guarantor to further contribute their best efforts on the business development of the Far Glory Group in order to meet the New Average Guaranteed Profit and hence will have a direct positive impact on the consolidated accounts of the Group in particular the expansion and development of the Far Glory Group are highly correlated with the Group’s financial performance given the digital licensing and copyright management business and the e-Learning business are the major business segments of the Group; (ii) the Shortfall is mainly due to the result of the delay in the business development whereas the Far Glory Group has achieved significant breakthroughs since December 2010 as evidenced by the OSC Exclusive Cooperation Agreement, the February Launch and the March Upload; (iii) the abovementioned impact on Far Glory Group from the increase in 3G subscribers and revenue of value added services of China Unicom; and (iv) the revised consideration adjustment mechanism by way of price to earnings ratio of 15 times with maximum amount of compensation equivalent to the Basic Consideration of HK\$27 million (details of the analyses on the price to earnings ratio of 15 times have been set out under the section headed “5. Revised consideration adjustment mechanism”), we consider the benefits from extension of the time for the fulfillment of the New Average Guaranteed Profit or the 2011 Actual Profit (as the case may be) under the Supplemental

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Agreement outweighed the Compensation and consider the Supplemental Agreement represents a reasonable arrangement for the Extension and provides a win-win situation for the Company, the Vendor and the Guarantor and we concur with the Directors' view that the Supplemental Agreement is in the interest of the Company and the Independent Shareholders as whole.

4. The Extension and the New Average Guaranteed Profit

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

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

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

Under the Supplemental Agreement, the Vendor has irrevocably warranted, and the Guarantor has irrevocably guaranteed to the Purchaser that (1) the average of the audited consolidated net profits after tax of the Far Glory Group for the financial years ending 31 December 2011 and 31 December 2012 will not be less than HK\$15,000,000; or (2) the 2011 Actual Profit will not be less than HK\$30,000,000. If the Far Glory Group achieved the New Average Guaranteed Profit or the 2011 Actual Profit is equal to or greater than HK\$30,000,000, the First Tranche Convertible Bond will be released to the Vendor and the Group will consolidate the profits of the Far Glory Group.

We noted that under the Supplemental Agreement, the maturity date of the First Tranche Convertible Bond will be extended to 31 December 2014 upon obtaining Independent Shareholders' approval at the EGM whilst the terms of the Extra Convertible Bond remain unchanged.

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In light of the above and in view that (i) the New Average Guaranteed Profit is same as the guaranteed profit under the Agreement; (ii) if the Far Glory Group achieved the New Average Guaranteed Profit of HK\$15,000,000 or the 2011 Actual Profit is equal to or greater than HK\$30,000,000, the First Tranche Convertible Bond will be released to the Vendor, the same arrangement under the Agreement; (iii) the Group will consolidate the profits of the Far Glory Group if the profit guarantee is met; (iv) the extension of the time for the fulfillment of the agreed guaranteed profit would provide more time to each of the Vendor and the Guarantor to further contribute their best efforts on the business development of the Far Glory Group to enhance its long-term prospects; (v) the revised consideration adjustment mechanism by way of price to earnings ratio of 15 times with maximum amount of compensation equivalent to the Basic Consideration of HK\$27 million under the Supplemental Agreement; and (vi) the security and escrow arrangement (as stated below), we consider the Extension and the guaranteed provided by the Vendor and the Guarantor under the Supplemental Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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

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

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As a security for the compensation mechanism of non-fulfillment of the New Average Guaranteed Profit, the Vendor further agreed that the Escrowed Convertible Bonds will be escrowed by the Purchaser. The Escrowed Convertible Bonds include the First Tranche Convertible Bond and the Second Tranche Convertible Bond. The First Tranche Convertible Bond refers to a convertible bond in the principal amount of HK\$4,000,000 due on 19 June 2011 and issued by the Company in favour to the Vendor pursuant to the Agreement. Under the Supplemental Agreement, the maturity date of the First Tranche Convertible Bond will be extended to 31 December 2014 upon obtaining Independent Shareholders' approval at the EGM. The Second Tranche Convertible Bond refers to part of a convertible bond in the principal amount of HK\$26,903,000 issued by the Company due on 15 December 2014 in favour of Daily Technology Company Limited (98% equity interests of which is owned by the Vendor) pursuant to the agreement in relation to the acquisition of 21.57% equity interests in Far Glory, i.e. HK\$4,400,000, will be escrowed by the Purchaser pursuant to the terms of the Supplemental Agreement. The Escrowed Convertible Bonds will be released to the Vendor upon the Purchaser confirming that the profit guarantee as guaranteed by the Vendor in the Supplemental Agreement has been met.

In view that (i) the terms of the Extra Convertible Bond and the settlement mechanism by way of the Extra Convertible Bond of the Balance Consideration remains unchanged under the Supplemental Agreement; (ii) the settlement mechanism enables the Group to finance the Balance Consideration arising from higher profits of the Far Glory Group by issuing convertible bond which will not lead to immediate cash outflow of the Group; and (iii) the extension of the time for the settlement of the Balance Consideration would provide more time to each of the Vendor and the Guarantor to further contribute their best efforts on the business development of the Far Glory Group to enhance its long-term prospects, we consider the settlement mechanism of the Balance Consideration is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

As set out in the Board Letter, the amount of the Escrowed Convertible Bonds was determined after consideration of (i) the unsettled portion of the Basic Consideration, i.e. the First Tranche Convertible Bonds under escrow was not enough as a security under the revised terms of the Supplemental Agreement; (ii) further security was needed for the possible compensation to the Company in terms of the amount of the Basic Consideration; (iii) the market value of the First Tranche Convertible Bonds and the Second Tranche Convertible Bonds were approximately HK\$8,778,000 and HK\$18,489,000 respectively as calculated with reference to the closing price per Share as at the date of the Supplemental Agreement of HK\$0.395 which is more or less equal to the amount of the Basic Consideration.

Having considered the market value of the Escrowed Convertible Bonds of approximately HK\$27.27 million based on the closing price per Share as at the date of the Supplemental Agreement is not less than the maximum compensation of approximately HK\$27.00 million to the Company in the event that the New Average Guaranteed Profit is unable to achieve, we consider the amount of the Escrowed Convertible Bonds is fair and reasonable.

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5. Revised consideration adjustment mechanism

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

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

If the Average Actual Profit is a loss, then the Average Actual Profit will be deemed as zero for the sake of calculating the amount of compensation. The maximum amount of the compensation payable by the Vendor to the Purchaser is the Basic Consideration of HK\$27 million.

As noted from the circular of the Company dated 30 May 2008 in respect of the Agreement, the consideration under the Agreement was determined after considering, among other factors, the potential contracts to be entered into between the Target Group and the telecommunication service provider, online or mobile entertainment providers in the PRC for the provision of copyright management solution, digital content licensing solution and copyright protected items and the significant growth potential of the copyright management and the digital content licensing market in the PRC.

We are aware the recent development of the Far Glory Group, however, having taking into consideration that the price to earnings ratio of 15 times (the “**PE Ratio**”) is determined at the time of the Agreement and the basis of consideration under the Agreement has already taken into account the potential development of Far Glory Group, we consider it is commercially justifiable to remain the PE Ratio to be 15 times. We noted that the price to earnings ratio of 15 times has not been included in the consideration adjustment formula under the Agreement. As such, we consider the above compensation formula after taken into account the shareholding interests of 12% of Far Glory acquired under the Agreement, the PE Ratio and maximum compensation amount which equals to the Basic Consideration is acceptable.

6. The Supplemental Deed

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

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Having considered (i) the Supplemental Deed would help to facilitate the Extension which we are of the view to be in the interests of the Company and the Independent Shareholders as a whole; and (ii) the interest rate under the First Tranche Convertible Bond of 1% per cent. per annum is less than the recent prime rate (which is 5.0% per annum) as quoted from The Hongkong and Shanghai Banking Corporation Limited, we concur with the Directors that the Supplemental Deed is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we are of the view that (i) the Supplemental Agreement and the Supplemental Deed are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Supplemental Agreement and the Supplemental Deed 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(s) to approve the Supplemental Agreement to and the Supplemental Deed 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>2,195,085,643</u> Shares in issue as at the Latest Practicable Date	<u>109,754,282.15</u>
22,222,222 Conversion Shares to be allotted and issued upon full conversion of the First Tranche Convertible Bond	1,111,111.10
<u>100,000,000</u> Extra Conversion Shares to be allotted and issued upon full conversion of the Extra Convertible Bond	<u>5,000,000.00</u>
<u>2,317,307,865</u>	<u>115,865,393.25</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:

(i) 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	1.95
Mr. Hsu Tung Chi (<i>Note 1</i>)	141,222,222(L) 327,272,127(L)	Beneficial owner Interest of controlled corporation	6.43 14.91
Ms. Au Shui Ming, Anna	54,500,000(L)	Beneficial owner	2.48
Mr. Hsu Tung Sheng	19,000,000(L)	Beneficial owner	0.87

Note 1:

Mr. Hsu Tung Chi beneficially interested in 19,000,000 Shares, 15,000,000 Share options and convertible bonds in the principal amount of HK\$4,000,000 entitling him the right to convert into 22,222,222 Shares at HK\$0.18 each.

In addition, subject to the fulfillment of certain conditions, the Company will allot to Mr. Hsu Tung Chi convertible bonds in the maximum principal amount of HK\$18,000,000 entitling him the right to convert into 100,000,000 Shares at HK\$0.18 each, pursuant 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.

Daily Technology Company Limited ("Daily Technology") beneficially owns 41,070,000 Shares. 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. Daily Technology beneficially owned as to 98% by Mr. Hsu Tung Chi, therefore he is deemed to be interested in the 327,272,127 Shares Daily Technology interested in under the SFO.

(ii) Interest in share options:

Name of Director	Date of grant	Exercisable period	Exercise price per share	Number of share options granted
Mr. Pang Hong Tao	13 December 2010	13 December 2010– 12 December 2013	HK\$0.44	8,000,000
Ms. Au Shui Ming, Anna	13 December 2010	13 December 2010– 12 December 2013	HK\$0.44	8,000,000
Mr. Hsu Tung Sheng	13 December 2010	13 December 2010– 12 December 2013	HK\$0.44	15,000,000
Mr. Hsu Tung Chi	16 December 2010	16 December 2010– 15 December 2013	HK\$0.475	15,000,000

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 (Note 1)	497,698,238(L)	Interest of controlled corporation	22.67
	4,500,000(L)	Deemed	0.21
Ms. Chan Yiu Kan Katie (Note 1)	4,500,000(L)	Beneficial owner	0.21
	497,698,278(L)	Deemed	22.67
Manciple Enterprises Limited (Note 1)	482,698,238(L)	Beneficial owner	21.99
Eagle Strategy Limited (Note 1)	15,000,000(L)	Beneficial owner	0.68
Mr. Hsu Tung Chi (Note 2)	156,222,222(L)	Beneficial owner	7.12
	327,272,127(L)	Interest of controlled corporation	14.91
Ms. Chuang Meng Hua (Note 2)	483,494,349(L)	Deemed	22.03
Daily Technology Company Limited (Note 2)	327,272,127(L)	Beneficial owner	14.91
Mr. Wan Wah Chung (Note 3)	220,000,000(L)	Interest of controlled corporation	10.02
	3,000,000(L)	Beneficial owner	0.14
	700,000(L)	Deemed	0.03
Ms. Yeung Wing Suen (Note 3)	700,000(L)	Beneficial owner	0.03
	223,000,000(L)	Deemed	10.16
Decade Talent Limited (Note 3)	220,000,000(L)	Beneficial owner	10.02

L: Long Position

Notes:

1. Manciple Enterprises Limited (“Manciple”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“Mr. Lau”). Manciple is beneficially interested in 482,698,238 Shares. Under the SFO, Mr. Lau is deemed to be interested in 482,698,238 Shares. Mr. Lau is also deemed to be interested in 15,000,000 Shares owned by Eagle Strategy Limited, which is wholly and beneficially owned by Mr. Lau.

Ms. Chan Yiu Kan Katie (“Ms. Chan”), the wife of Mr. Lau, is beneficially interested in 4,500,000 Shares. Being spouses, Mr. Lau and Ms. Chan are deemed to be interested in their respective shareholding in the Company under the SFO.

2. Mr. Hsu Tung Chi is beneficially interested in 19,000,000 Shares, 15,000,000 Share options and convertible bonds in the principal amount of HK\$4,000,000 entitling him the right to convert into 22,222,222 Shares at HK\$0.18 each. In addition, subject to the fulfillment of certain conditions, the Company will allot to Mr. Hsu Tung Chi convertible bonds in the maximum principal amount of HK\$18,000,000 entitling him the right to convert into 100,000,000 Shares at HK\$0.18 each, pursuant to the sale and purchase agreement entered into among Cheer Plan, a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi and Mr. Hsu Tung Sheng on 5 May 2008.

Daily Technology is beneficially interested in 41,070,000 Shares. 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. Daily Technology beneficially owned as to 98% by Mr. Hsu Tung Chi and therefore he is also deemed to be interested in the 327,272,127 Shares Daily Technology interested in under the SFO.

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

3. Decade Talent Limited is beneficially interested in 75,000,000 Shares and 145,000,000 warrants of the Company.

Mr. Wan Wah Chung is beneficially interested in 3,000,000 Shares. Decade Talent Limited is wholly and beneficially owned by Mr. Wan Wah Chung and therefore he is deemed to be interested in the 75,000,000 Shares and 145,000,000 warrants Decade Talent Limited interested in under the SFO.

Ms. Yeung Wing Suen is beneficially interested in 700,000 Shares. She is also deemed to be interested in the aforesaid Shares and warrants of the Company of Mr. Wan Wah Chung and Decade Talent Limited by virtue of her being the spouse of Mr. Wan Wah Chung.

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 2010, 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 2010, 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 2010, 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 First Acquisition Agreement;
- (b) the Agreement;
- (c) the Third Acquisition Agreement;
- (d) the Fourth Acquisition Agreement; and
- (e) 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 Monday, 23 May 2011 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as ordinary resolution(s) of the Company:

“THAT

- (a) the conditional supplemental agreement dated 1 April 2011 (the “**Supplemental Agreement**”) and entered into among Cheer Plan Limited as purchaser, Mr. Hsu Tung Chi as Vendor and Mr. Hsu Tung Sheng as guarantor in relation to the extension of time for the fulfillment of the agreed guaranteed profit and the amendment of certain terms of the conditional agreement dated 5 May 2008 in relation to the acquisition of 12% shareholding interests in Far Glory Limited (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 (including the execution of a supplemental deed (the “**Supplemental Deed**”) to extend the maturity date of the First Tranche Convertible Bond to 31 December 2014), 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 Supplemental Agreement, the Supplemental Deed and the transactions contemplated thereunder.

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

Hong Kong, 4 May 2011

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.