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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)

**ANNUAL RESULTS ANNOUNCEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”)**  
**OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

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*This announcement, for which the directors of China Digital Licensing (Group) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to China Digital Licensing (Group) Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:– (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## FINANCIAL RESULTS

The board (the “Board”) of directors (the “Directors”) is pleased to present the audited consolidated financial statements of China Digital Licensing (Group) Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ended 31 December 2009 together with the comparative audited figures for the year 2008, as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2009*

|   | <i>Note</i> | <b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000      |
|---|-------------|--------------------------------|-----------------------|
| <b>Continuing operations</b>                              |             |                                |                       |
| Turnover  | 5           | <b>4,150</b>                   | 985                   |
| Cost of services rendered                                 |             | <u>(764)</u>                   | <u>(178)</u>          |
| Gross profit  |             | <b>3,386</b>                   | 807                   |
| Other income  | 6           | <b>40</b>                      | 445                   |
| Selling and distribution costs                            |             | <b>(275)</b>                   | –                     |
| Administrative and other expenses                         |             | <b>(15,044)</b>                | (29,284)              |
| Finance costs   | 7           | <b>(947)</b>                   | (842)                 |
| Share of losses of jointly controlled entities/associates |             | <u>(69)</u>                    | <u>(22)</u>           |
| <b>Loss before taxation</b>                               | 8           | <b>(12,909)</b>                | (28,896)              |
| Income tax expense  | 9           | <u>(224)</u>                   | <u>(77)</u>           |
| <b>Loss for the year from continuing operations</b>       |             | <b>(13,133)</b>                | (28,973)              |
| <b>Discontinued operations</b>                            | 10          | <u><b>4,674</b></u>            | <u>(41,432)</u>       |
| <b>Loss for the year</b>                                  |             | <u><b>(8,459)</b></u>          | <u>(70,405)</u>       |
| <b>Other comprehensive income for the year</b>            |             |                                |                       |
| Currency translation differences                          |             | <u>–</u>                       | <u>2,211</u>          |
| <b>Total comprehensive loss for the year</b>              |             | <u><b>(8,459)</b></u>          | <u>(68,194)</u>       |
| <b>(Loss) Profit attributable to:</b>                     |             |                                |                       |
| Equity holders of the Company                             |             | <b>(8,767)</b>                 | (66,159)              |
| Minority interests  |             | <u><b>308</b></u>              | <u>(4,246)</u>        |
|   |             | <u><b>(8,459)</b></u>          | <u>(70,405)</u>       |
| <b>Total comprehensive (loss) income attributable to:</b> |             |                                |                       |
| Equity holders of the Company                             | 15          | <b>(8,767)</b>                 | (65,030)              |
| Minority interests  |             | <u><b>308</b></u>              | <u>(3,164)</u>        |
|   |             | <u><b>(8,459)</b></u>          | <u>(68,194)</u>       |
| <b>Dividends</b>  | 11          | <u>–</u>                       | <u>–</u>              |
| <b>Basic and diluted (loss) earnings per share</b>        | 12          |                                |                       |
| From continuing and discontinued operations               |             | <b>HK(0.59) cents</b>          | HK(4.97) cents        |
| From continuing operations                                |             | <b>HK(0.91) cents</b>          | HK(2.19) cents        |
| From discontinued operations                              |             | <u><b>HK0.32 cents</b></u>     | <u>HK(2.78) cents</u> |

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 31 December 2009*

|  | <i>Note</i> | <b>2009</b><br><b>HK\$'000</b> | <b>2008</b><br><b>HK\$'000</b> |
|--|-------------|--------------------------------|--------------------------------|
| <b>Non-current assets</b>                                      |             |                                |                                |
| Property, plant and equipment                                  |             | <b>100</b>                     | 204                            |
| Interests in associates  |             | –                              | 65,228                         |
| Interests in jointly controlled entities                       |             | <b>9,455</b>                   | –                              |
| Goodwill   |             | <b>109,296</b>                 | 19,826                         |
|  |             | <b>118,851</b>                 | 85,258                         |
| <b>Current assets</b>  |             |                                |                                |
| Inventories  |             | <b>143</b>                     | –                              |
| Trade and other receivables                                    | <i>13</i>   | <b>11,674</b>                  | 1,473                          |
| Due from a director of a subsidiary/a director                 |             | <b>1,585</b>                   | 20                             |
| Bank balances and cash   |             | <b>29,052</b>                  | 12,109                         |
|  |             | <b>42,454</b>                  | 13,602                         |
| Assets of a disposal group classified as held for sale         |             | –                              | 2,324                          |
|  |             | <b>42,454</b>                  | 15,926                         |
| <b>Current liabilities</b>                                     |             |                                |                                |
| Other payables   | <i>14</i>   | <b>3,059</b>                   | 2,416                          |
| Loans from minority shareholders of a subsidiary               |             | <b>490</b>                     | –                              |
| Tax payable  |             | <b>197</b>                     | 44                             |
|  |             | <b>3,746</b>                   | 2,460                          |
| Liabilities associated with assets classified as held for sale |             | –                              | 6,067                          |
|  |             | <b>3,746</b>                   | 8,527                          |
| <b>Net current assets</b>                                      |             | <b>38,708</b>                  | 7,399                          |
| <b>Total assets less current liabilities</b>                   |             | <b>157,559</b>                 | 92,657                         |
| <b>Non-current liabilities</b>                                 |             |                                |                                |
| Promissory note  |             | –                              | 3,740                          |
| Convertible bonds  |             | <b>24,895</b>                  | 22,735                         |
| Other payables   |             | <b>18,000</b>                  | 26,160                         |
| Deferred tax liabilities                                       |             | <b>16</b>                      | 33                             |
|  |             | <b>42,911</b>                  | 52,668                         |
| <b>NET ASSETS</b>  |             | <b>114,648</b>                 | 39,989                         |
| <b>Capital and reserves</b>                                    |             |                                |                                |
| Share capital  |             | <b>97,029</b>                  | 66,519                         |
| Reserves   |             | <b>4,414</b>                   | (27,202)                       |
| Equity attributable to equity holders of the Company           |             | <b>101,443</b>                 | 39,317                         |
| Minority interests   |             | <b>13,205</b>                  | 672                            |
| <b>TOTAL EQUITY</b>  |             | <b>114,648</b>                 | 39,989                         |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

|                                       | Attributable to equity holders of the Company |          |          |          |             |             |             |          |          |           |          |
|---------------------------------------|---|----------|----------|----------|-------------|-------------|-------------|----------|----------|-----------|----------|
|                                       | Reserves                                      |          |          |          |             |             |             |          |          |           |          |
|                                       |   |          |          |          | Employee    | Convertible |             |          |          |           |          |
|                                       | Share   | Share    | *Special | Exchange | share-based | bonds       | Accumulated | Total    |          | Minority  |          |
|                                       | capital                                       | premium  | reserve  | reserve  | payment     | reserve     | losses      | reserves | Subtotal | interests | Total    |
|                                       | HK\$'000                                      | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000    | HK\$'000    | HK\$'000    | HK\$'000 | HK\$'000 | HK\$'000  | HK\$'000 |
| At 1 January 2008                     | 66,519  | 68,861   | 10,084   | 543      | –           | –           | (46,351)    | 33,137   | 99,656   | 18,019    | 117,675  |
| Issue of convertible bonds            | –   | –        | –        | –        | –           | 3,453       | –           | 3,453    | 3,453    | –         | 3,453    |
| Redemption of convertible bonds       | –   | –        | –        | –        | –           | (617)       | –           | (617)    | (617)    | –         | (617)    |
| Share issue expenses                  | –   | (253)    | –        | –        | –           | –           | –           | (253)    | (253)    | –         | (253)    |
| Open offer expenses                   | –   | (505)    | –        | –        | –           | –           | –           | (505)    | (505)    | –         | (505)    |
| Employee share-based payment          | –   | –        | –        | –        | 4,354       | –           | –           | 4,354    | 4,354    | –         | 4,354    |
| Acquisition of subsidiaries           | –   | –        | –        | –        | –           | –           | –           | –        | –        | 6,019     | 6,019    |
| Disposal of subsidiaries              | –   | –        | –        | (1,741)  | –           | –           | –           | (1,741)  | (1,741)  | (20,202)  | (21,943) |
| Total comprehensive loss for the year | –   | –        | –        | 1,129    | –           | –           | (66,159)    | (65,030) | (65,030) | (3,164)   | (68,194) |
| At 31 December 2008                   | 66,519  | 68,103   | 10,084   | (69)     | # 4,354     | 2,836       | (112,510)   | (27,202) | 39,317   | 672       | 39,989   |

|                                       | Attributable to equity holders of the Company |          |          |          |             |             |             |          |          |           |          |
|---------------------------------------|---|----------|----------|----------|-------------|-------------|-------------|----------|----------|-----------|----------|
|                                       | Reserves                                      |          |          |          |             |             |             |          |          |           |          |
|                                       |   |          |          |          | Employee    |             |             |          |          |           |          |
|                                       | Share   | Share    | *Special | Exchange | share-based | Convertible | Accumulated | Total    |          | Minority  |          |
|                                       | capital                                       | premium  | reserve  | reserve  | payment     | bonds       | losses      | reserves | Subtotal | interests | Total    |
|                                       | HK\$'000                                      | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000    | HK\$'000    | HK\$'000    | HK\$'000 | HK\$'000 | HK\$'000  | HK\$'000 |
| At 1 January 2009                     | 66,519  | 68,103   | 10,084   | (69)     | 4,354       | 2,836       | (112,510)   | (27,202) | 39,317   | 672       | 39,989   |
| Issue of consideration shares         | 10,216  | 8,991    | –        | –        | –           | –           | –           | 8,991    | 19,207   | –         | 19,207   |
| Issue of convertible bonds            | –   | –        | –        | –        | –           | 5,826       | –           | 5,826    | 5,826    | –         | 5,826    |
| Conversion of convertible bonds       | 579   | 1,662    | –        | –        | –           | (280)       | –           | 1,382    | 1,961    | –         | 1,961    |
| Cancellation of convertible bonds     | –   | –        | –        | –        | –           | (47)        | –           | (47)     | (47)     | –         | (47)     |
| Redemption of convertible bonds       | –   | –        | –        | –        | –           | (2,075)     | 876         | (1,199)  | (1,199)  | –         | (1,199)  |
| Issue of new shares                   | 13,650  | 15,015   | –        | –        | –           | –           | –           | 15,015   | 28,665   | –         | 28,665   |
| Share issue expenses                  | –   | (717)    | –        | –        | –           | –           | –           | (717)    | (717)    | –         | (717)    |
| Employee share-based payment          | –   | –        | –        | –        | 6,571       | –           | –           | 6,571    | 6,571    | –         | 6,571    |
| Exercise of share options             | 6,065   | 7,772    | –        | –        | (3,280)     | –           | –           | 4,492    | 10,557   | –         | 10,557   |
| Acquisition of subsidiaries           | –   | –        | –        | –        | –           | –           | –           | –        | –        | 12,225    | 12,225   |
| Disposal of subsidiaries              | –   | –        | –        | 69       | –           | –           | –           | 69       | 69       | –         | 69       |
| Total comprehensive loss for the year | –   | –        | –        | –        | –           | –           | (8,767)     | (8,767)  | (8,767)  | 308       | (8,459)  |
| At 31 December 2009                   | 97,029  | 100,826  | 10,084   | –        | # 7,645     | 6,260       | (120,401)   | 4,414    | 101,443  | 13,205    | 114,648  |

\* The special reserve represents the difference between the nominal amount of shares and share premium of subsidiaries acquired and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation took place in 2003.

# Included in employee share-based payment reserve was an amount of HK\$1,928,000 relating to the share options lapsed in 2008 due to resignation of certain employees.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2009

### 1. CORPORATE INFORMATION

China Digital Licensing (Group) Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The Company’s shares have been listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands and its principal place of business is located at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

The Group is principally engaged in the provision of copyright management solution and the related consultancy services and the distribution of copyright-protected items. The Group is also engaged in the development and provision of on-line education programs, provide languages and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macao.

### 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2008 financial statements except for the adoption of certain new/revised HKFRS effective from the current year that are relevant to the Company as detailed in note 3 to the financial statements.

A summary of the principal accounting policies adopted by the Group is set out in note 3 to the financial statements.

### 3. PRINCIPAL ACCOUNTING POLICIES

#### Adoption of new/revised HKFRS

HKAS 1 (Revised): *Presentation of Financial Statements*

HKAS 1 (Revised) requires transactions with owners to be presented separately from all other income and expenses in a revised statement of changes in equity. The revised Standard however allows non-owner changes in equity to be shown in a single statement (the statement of comprehensive income) or two statements (the income statement and the statement of other comprehensive income). The Group has elected to prepare one statement. In addition, the revised Standard requires that when comparative information is restated or reclassified, a statement of financial position as at the beginning of the comparative period, in addition to the statements of financial position as at the end of the current period and the comparative period, should be presented. Since the Group and the Company did not restate comparative information during the year, this new requirement has no impact on the financial statements.

#### HKAS 23 (Revised): *Borrowing costs*

HKAS 23 (Revised) eliminated the option to expense borrowing costs and requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Since the Group has not previously adopted the option to expense borrowing costs, the revised Standard has no impact on the financial statements.

#### Amendments to HKFRS 2: *Share-based payments – Vesting conditions and cancellations*

Amendments to HKFRS 2 clarify that vesting conditions include service and performance conditions only, and all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of these amendments had no impact on the financial statements.

#### Improvements to HKFRS (2008)

Improvements to HKFRS (2008) contain improvements to a number of Standards aiming to remove inconsistencies and clarify wording in the Standards. The adoption of those improvements had resulted in a number of changes in the details of the Group's accounting policies. Of those changes, only those as described below are considered more significant to the Group:

#### HKFRS 8: *Operating segments*

HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has no impact on the reported result or financial position of the Group.

## Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost.

## Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of the following new/revised HKFRS that are not yet effective for the current year, which the Group has not early adopted.

|   |  |
|---|--|
| HKFRS 1 (Revised)   | <i>First-time Adoption of Hong Kong Financial Reporting Standard</i> <sup>1</sup>  |
| HKFRS 1 Amendments  | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> <sup>2</sup>       |
| HKFRS 2 Amendments  | <i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> <sup>2</sup>  |
| HKFRS 3 (Revised)   | <i>Business Combinations</i> <sup>1</sup>  |
| HKFRS 9   | <i>Financial Instruments</i> <sup>6</sup>  |
| HKAS 24 (Revised)   | <i>Related Party Disclosures</i> <sup>5</sup>  |
| HKAS 27 (Revised)   | <i>Consolidated and Separate Financial Statements</i> <sup>1</sup>   |
| HKAS 32 Amendment   | <i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i> <sup>3</sup>   |
| HKAS 39 Amendment   | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> <sup>1</sup>  |
| HKFRIC 14 Amendments  | <i>Amendments to HKFRIC 14 Prepayments of a Minimum Funding Requirement</i> <sup>5</sup>   |
| HKFRIC 17   | <i>Distributions of Non-cash Assets to Owners</i> <sup>1</sup>   |
| HKFRIC 19   | <i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>4</sup>  |
| Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008 | <i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i> <sup>1</sup> |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2013

The directors are in the process of assessing the possible impact on the future adoption of these new and revised HKFRS, but are not yet in a position to reasonably estimate their impact on the Group's financial statements.

#### **4. SEGMENTAL INFORMATION**

The Group manages its businesses by individual companies, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reporting segments. No operating segments have been aggregated to form the following reporting segments.

- the server-based technology segment provides language communication software and platforms;
- the e-Learning business segment provides e-Learning programs and development of related products;
- the e-Licensing business segment provides the distribution of copyright protected items and other entertainment related business.

##### **(a) Segment results, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reporting segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade and other payables to the sales/service activities of the individual segments.

Revenue and expenses are allocated to the reporting segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arisen from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segments to another, including sharing assets and technical know-how, is not measured.

Information regarding to the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below.

**Year ended 31 December 2009**

|   | Continuing operations              |                                     |                       | Discontinued operations                | Consolidated<br>HK\$'000 |
|---|------------------------------------|-------------------------------------|-----------------------|--|--------------------------|
|   | e-Learning<br>business<br>HK\$'000 | e-Licensing<br>business<br>HK\$'000 | Sub-total<br>HK\$'000 | Server-based<br>technology<br>HK\$'000 |                          |
| <b>Segment revenue</b>                            |                                    |                                     |                       |  |                          |
| Sale to external customers                        | <u>4,150</u>                       | <u>–</u>                            | <u>4,150</u>          | <u>172</u>                             | <u>4,322</u>             |
| <b>Segment results</b>                            | <u>1,109</u>                       | <u>–</u>                            | <u>1,109</u>          | <u>(29)</u>                            | <u>1,080</u>             |
| Unallocated income                                |                                    |                                     | 40                    | –                                      | 40                       |
| Unallocated expenses                              |                                    |                                     | (13,042)              | –                                      | (13,042)                 |
| Unallocated finance costs                         |                                    |                                     | (947)                 | –                                      | (947)                    |
| Gain on disposal of subsidiaries                  |                                    |                                     | –                     | 4,703                                  | 4,703                    |
| Share of loss from<br>jointly controlled entities |                                    |                                     | <u>(69)</u>           | <u>–</u>                               | <u>(69)</u>              |
| (Loss) Profit before taxation                     |                                    |                                     | (12,909)              | 4,674                                  | (8,235)                  |
| Taxation  |                                    |                                     | <u>(224)</u>          | <u>–</u>                               | <u>(224)</u>             |
| (Loss) Profit for the year                        |                                    |                                     | <u>(13,133)</u>       | <u>4,674</u>                           | <u>(8,459)</u>           |
| <b>Assets and liabilities</b>                     |                                    |                                     |                       |  |                          |
| Segment assets                                    | 5,389                              | 15,946                              | 21,335                | –                                      | 21,335                   |
| Interest in jointly<br>controlled entities        | –                                  | 9,455                               | 9,455                 | –                                      | 9,455                    |
| Unallocated assets                                |                                    |                                     |                       |  | <u>130,515</u>           |
| Consolidated total assets                         |                                    |                                     |                       |  | <u>161,305</u>           |
| Segment liabilities                               | 2,903                              | 48                                  | 2,951                 | –                                      | 2,951                    |
| Unallocated liabilities                           |                                    |                                     |                       |  | <u>43,706</u>            |
| Consolidated total liabilities                    |                                    |                                     |                       |  | <u>46,657</u>            |
| <b>Other segment information</b>                  |                                    |                                     |                       |  |                          |
| Depreciation                                      | 119                                | –                                   | 119                   | –                                      | 119                      |
| Capital expenditure                               | <u>15</u>                          | <u>–</u>                            | <u>15</u>             | <u>–</u>                               | <u>15</u>                |

Year ended 31 December 2008

|   | Continuing<br>operations           | Discontinued operations                |                                    |                             |                       | Consolidated    |
|---|------------------------------------|--|------------------------------------|-----------------------------|-----------------------|-----------------|
|   | e-Learning<br>business<br>HK\$'000 | Server-based<br>technology<br>HK\$'000 | Organic<br>fertilizers<br>HK\$'000 | Water<br>supply<br>HK\$'000 | Sub-total<br>HK\$'000 |                 |
| <b>Segment revenue</b>                            |                                    |  |                                    |                             |                       |                 |
| Sale to external customers                        | <u>985</u>                         | <u>7,853</u>                           | <u>877</u>                         | <u>329</u>                  | <u>9,059</u>          | <u>10,044</u>   |
| <b>Segment results</b>                            | 330                                | <u>(1,152)</u>                         | <u>(46,762)</u>                    | <u>(3,095)</u>              | (51,009)              | (50,679)        |
| Unallocated income                                | 43                                 |  |                                    |                             | 292                   | 335             |
| Unallocated expenses                              | (28,405)                           |  |                                    |                             | –                     | (28,405)        |
| Unallocated finance costs                         | (842)                              |  |                                    |                             | –                     | (842)           |
| Gain on disposal of subsidiaries                  | –                                  |  |                                    |                             | 5,549                 | 5,549           |
| Share of loss from associates                     | <u>(22)</u>                        |  |                                    |                             | <u>–</u>              | <u>(22)</u>     |
| Loss before taxation                              | (28,896)                           |  |                                    |                             | (45,168)              | (74,064)        |
| Taxation  | <u>(77)</u>                        |  |                                    |                             | <u>3,736</u>          | <u>3,659</u>    |
| Loss for the year                                 | <u>(28,973)</u>                    |  |                                    |                             | <u>(41,432)</u>       | <u>(70,405)</u> |
| <b>Assets and liabilities</b>                     |                                    |  |                                    |                             |                       |                 |
| Segment assets                                    | 3,168                              | 2,324                                  | –                                  | –                           | 2,324                 | 5,492           |
| Interest in associates                            |                                    |  |                                    |                             |                       | 65,228          |
| Unallocated assets                                |                                    |  |                                    |                             |                       | <u>30,464</u>   |
| Consolidated total assets                         |                                    |  |                                    |                             |                       | <u>101,184</u>  |
| Segment liabilities                               | 1,790                              | 6,067                                  | –                                  | –                           | 6,067                 | 7,857           |
| Unallocated liabilities                           |                                    |  |                                    |                             |                       | <u>53,338</u>   |
| Consolidated total liabilities                    |                                    |  |                                    |                             |                       | <u>61,195</u>   |
| <b>Other segment information</b>                  |                                    |  |                                    |                             |                       |                 |
| Depreciation and amortisation                     | 73                                 | 59                                     | 712                                | 1,837                       | 2,608                 | 2,681           |
| Impairment loss of goodwill                       | –                                  | –                                      | 36,000                             | –                           | 36,000                | 36,000          |
| Impairment loss of<br>intangible assets           | –                                  | –                                      | 1,464                              | –                           | 1,464                 | 1,464           |
| Impairment loss of trade<br>and other receivables | –                                  | –                                      | 19,851                             | –                           | 19,851                | 19,851          |
| Inventories written-off                           | –                                  | –                                      | 1,416                              | –                           | 1,416                 | 1,416           |
| Property, plant and<br>equipment written-off      | –                                  | 1                                      | 388                                | –                           | 389                   | 389             |
| Capital expenditure                               | <u>–</u>                           | <u>82</u>                              | <u>347</u>                         | <u>1,377</u>                | <u>1,806</u>          | <u>1,806</u>    |

**(b) Geographic information**

The Group's operations are principally located in Hong Kong and the People's Republic of China other than Hong Kong (the "PRC").

The following table provides an analysis of the Group's turnover by geographical place of provision of services:

**Year ended 31 December 2009**

|                                  | <b>the PRC</b><br><b>HK\$'000</b> | <b>Hong Kong</b><br><b>HK\$'000</b> | <b>Consolidated</b><br><b>HK\$'000</b> |
|----------------------------------|-----------------------------------|-------------------------------------|--|
| <b>Segment revenue</b>           |                                   |                                     |  |
| Sale to external customers       | <u><u>–</u></u>                   | <u><u>4,322</u></u>                 | <u><u>4,322</u></u>                    |
| <b>Other segment information</b> |                                   |                                     |  |
| Non-current assets               | <u><u>–</u></u>                   | <u><u>100</u></u>                   | <u><u>100</u></u>                      |

**Year ended 31 December 2008**

|                                  | <b>the PRC</b><br><b>HK\$'000</b> | <b>Hong Kong</b><br><b>HK\$'000</b> | <b>Consolidated</b><br><b>HK\$'000</b> |
|----------------------------------|-----------------------------------|-------------------------------------|--|
| <b>Segment revenue</b>           |                                   |                                     |  |
| Sale to external customers       | <u><u>1,518</u></u>               | <u><u>8,526</u></u>                 | <u><u>10,044</u></u>                   |
| <b>Other segment information</b> |                                   |                                     |  |
| Non-current assets               | <u><u>3</u></u>                   | <u><u>319</u></u>                   | <u><u>322</u></u>                      |

## 5. TURNOVER AND REVENUE

Turnover represents subscription fees for the on-line education programs and revenue from the provision of e-Learning services during the year.

An analysis of the Group's turnover and revenue during the year is as follows:

|   | <b>Group</b>        |                      |
|---|---------------------|----------------------|
|   | <b>2009</b>         | <b>2008</b>          |
|   | <b>HK\$'000</b>     | <b>HK\$'000</b>      |
| <i>Continuing operations</i>            |                     |                      |
| e-Learning business                     | <u>4,150</u>        | <u>985</u>           |
| <i>Discontinued operations</i>          |                     |                      |
| Provision of water supply services      | –                   | 329                  |
| Putonghua learning platform             | 172                 | 975                  |
| Sale of licensed software               | –                   | 4,641                |
| Sale of organic fertilizers             | –                   | 877                  |
| Software maintenance services           | –                   | 1,407                |
| Software rental and subscription income | –                   | 780                  |
| Website development                     | <u>–</u>            | <u>50</u>            |
|   | <u>172</u>          | <u>9,059</u>         |
| <b>Turnover and revenue</b>             | <b><u>4,322</u></b> | <b><u>10,044</u></b> |

## 6. OTHER INCOME

|  | <b>Group</b>     |                     |
|--|------------------|---------------------|
|  | <b>2009</b>      | <b>2008</b>         |
|  | <b>HK\$'000</b>  | <b>HK\$'000</b>     |
| <i>Continuing operations</i>               |                  |                     |
| Consulting income                          | –                | 400                 |
| Interest income                            | 26               | 43                  |
| Sundry income                              | <u>14</u>        | <u>2</u>            |
|  | <u>40</u>        | <u>445</u>          |
| <i>Discontinued operations</i>             |                  |                     |
| Interest income                            | –                | 717                 |
| Amortisation of deferred government grants | –                | 274                 |
| Sundry income                              | <u>–</u>         | <u>32</u>           |
|  | <u>–</u>         | <u>1,023</u>        |
|  | <b><u>40</u></b> | <b><u>1,468</u></b> |

## 7. FINANCE COSTS

|                               | <b>Group</b>      |                 |
|-------------------------------|-------------------|-----------------|
|                               | <b>2009</b>       | 2008            |
|                               | <b>HK\$'000</b>   | <b>HK\$'000</b> |
| Bank interest expenses        | <b>1</b>          | –               |
| Interest on promissory notes  | <b>23</b>         | 124             |
| Interest on convertible bonds | <b>923</b>        | 718             |
|                               | <u><b>947</b></u> | <u>842</u>      |

## 8. LOSS BEFORE TAXATION

This is stated after charging:

|   | <b>Group</b>        |                 |
|---|---------------------|-----------------|
|   | <b>2009</b>         | 2008            |
|   | <b>HK\$'000</b>     | <b>HK\$'000</b> |
| Employee benefits expenses (including directors' remuneration)  |                     |                 |
| Salaries, allowances and benefit in kind                        | <b>1,986</b>        | 6,400           |
| Contribution to defined contribution schemes                    | <b>74</b>           | 298             |
| Employee share-based payment                                    | <b>6,571</b>        | 4,354           |
|   | <u><b>8,631</b></u> | <u>11,052</u>   |
| Auditor's remuneration  | <b>290</b>          | 268             |
| Cost of services rendered                                       | <b>764</b>          | 1,442           |
| Cost of inventories sold  | –                   | 3,407           |
| Depreciation of property, plant and equipment                   | <b>119</b>          | 2,665           |
| Impairment loss of goodwill included in discontinued operations | –                   | 36,000          |
| Impairment loss of intangible assets included                   |                     |                 |
| in discontinued operations                                      | –                   | 1,464           |
| Impairment loss of trade and other receivables                  | –                   | 19,851          |
| Inventories written-off   | –                   | 1,416           |
| Property, plant and equipment written-off                       | <u><b>–</b></u>     | <u>389</u>      |

Included in cost of services provided were other employee benefits, salaries and allowances of approximately HK\$730,000 and operating lease payments of approximately HK\$63,000 for the year ended 31 December 2008.

No operating lease payments on office premises were made by the Group during the year (2008: HK\$1,357,000) as the Group shares its strategic partners' offices for free.

## 9. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

PRC enterprise income tax has not been provided as the PRC subsidiaries incurred a loss for taxation purposes.

|                                   | <b>Group</b>      |                       |
|-----------------------------------|-------------------|-----------------------|
|                                   | <b>2009</b>       | <b>2008</b>           |
|                                   | <b>HK\$'000</b>   | <b>HK\$'000</b>       |
| Current year provision            |                   |                       |
| Hong Kong profits tax             | <b>241</b>        | 44                    |
| Overprovision in prior year       | –                 | (3,736)               |
| Deferred taxation                 | <b>(17)</b>       | 33                    |
|                                   | <u>224</u>        | <u>33</u>             |
| Tax expense (credit) for the year | <u><b>224</b></u> | <u><b>(3,659)</b></u> |
| Attributable to:                  |                   |                       |
| Continuing operations             | <b>224</b>        | 77                    |
| Discontinued operations           | –                 | (3,736)               |
|                                   | <u><b>224</b></u> | <u><b>(3,659)</b></u> |

### Reconciliation of tax expenses (credit)

|   | <b>Group</b>          |                        |
|---|-----------------------|------------------------|
|   | <b>2009</b>           | <b>2008</b>            |
|   | <b>HK\$'000</b>       | <b>HK\$'000</b>        |
| Loss before taxation                                    | <u><b>(8,235)</b></u> | <u><b>(74,064)</b></u> |
| Tax at the applicable rate of 16.5% (2008: 16.5%)       | <b>(1,358)</b>        | (12,220)               |
| Share of loss of jointly controlled entities/associates | <b>11</b>             | 4                      |
| Non-deductible expenses                                 | <b>1,577</b>          | 10,791                 |
| Non-taxable revenue                                     | <b>(6)</b>            | (931)                  |
| Unrecognised temporary differences                      | –                     | (19)                   |
| Unrecognised tax losses                                 | –                     | 2,430                  |
| Overprovision in prior year                             | –                     | (3,736)                |
| Others  | –                     | 22                     |
|   | <u><b>224</b></u>     | <u><b>(3,659)</b></u>  |
| Tax expenses (credit) for the year                      | <u><b>224</b></u>     | <u><b>(3,659)</b></u>  |

## 10. DISCONTINUED OPERATIONS

### Disposal of the server-based technology business

In December 2008, the Company and Mr. Mo Wai Ming, Lawrence, an executive director of the Company, resigned on 19 January 2009 entered into an agreement relating to the disposal of the Group's server-based technology business, which involves the provision of language communication software and platforms in Hong Kong. The disposal was completed in January 2009.

The combined results of the above mentioned discontinued operation which included the water supply, organic fertilisers and server-based technology businesses for the years ended 31 December 2009 and 2008 are summarised as follows:

|   | <b>Group</b>        |                        |
|---|---------------------|------------------------|
|   | <b>2009</b>         | 2008                   |
|   | <b>HK\$'000</b>     | <b>HK\$'000</b>        |
| Turnover  | <b>172</b>          | 9,059                  |
| Cost of sales/service rendered                            | <b>(86)</b>         | (4,671)                |
| Gross profit  | <b>86</b>           | 4,388                  |
| Other revenue   | –                   | 1,023                  |
| Gain on disposal of subsidiaries                          | <b>4,703</b>        | 5,549                  |
| Administrative and other expenses                         | <b>(115)</b>        | (56,128)               |
| Profit (Loss) before taxation                             | <b>4,674</b>        | (45,168)               |
| Income tax expense  | –                   | 3,736                  |
| Profit (Loss) for the year                                | <b>4,674</b>        | (41,432)               |
| Minority interests  | –                   | 4,367                  |
| Net profit (loss) attributable to discontinued operations | <b><u>4,674</u></b> | <b><u>(37,065)</u></b> |
| Net cash flows  |                     |                        |
| Operating activities                                      | –                   | (16,009)               |
| Investing activities                                      | –                   | (1,806)                |
| Financing activities                                      | –                   | (452)                  |
| Total cash flows  | <b><u>–</u></b>     | <b><u>(18,267)</u></b> |

The server-based technology business has been classified and accounted for at 31 December 2008 as assets of a disposal group classified as held for sale.

## 11. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the year (2008: Nil).

## 12. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the net (loss) profit attributable to equity holders of the Company and the weighted average number of the Company's ordinary shares in issue during the year as follows:

|  | 2009<br>HK\$'000        | 2008<br>HK\$'000     |
|--|-------------------------|----------------------|
| <b>For continuing and discontinued operations</b>                      |                         |                      |
| Loss attributable to equity holders of the Company                     | <u>(8,767)</u>          | <u>(66,159)</u>      |
| <b>For continuing operations</b>                                       |                         |                      |
| Loss attributable to equity holders of the Company                     | <u>(13,441)</u>         | <u>(29,094)</u>      |
| <b>For discontinued operations</b>                                     |                         |                      |
| Profit (Loss) attributable to equity holders of the Company            | <u>4,674</u>            | <u>(37,065)</u>      |
|  | <b>Number of shares</b> |                      |
|  | 2009                    | 2008                 |
| <b>Shares</b>  |                         |                      |
| Weighted average number of ordinary shares<br>in issue during the year | <u>1,479,038,987</u>    | <u>1,330,375,080</u> |

Diluted (loss) earnings per share for 2009 and 2008 is the same as basic (loss) earnings per share as the potential ordinary shares under the convertible bonds and share options have anti-dilutive effects on the basic (loss) earnings per share.

## 13. TRADE AND OTHER RECEIVABLES

|   | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|---------------------------|------------------|
| Trade receivables from third parties        | 1,978                     | 731              |
| Deposits, prepayments and other receivables | <u>9,696</u>              | <u>742</u>       |
|   | <u>11,674</u>             | <u>1,473</u>     |

In general, the Group allows a credit period of 30 days to its customers upon the presentation of the invoices. Included in the Group's trade receivables balance are debtors with a carrying amount of HK\$1,650,000 (2008: HK\$142,000), which were past due at the end of the reporting period but not impaired as there has not been a significant change in credit quality and part of which has been subsequently settled. These relate to a wide range of customers for whom there is no recent history of default.

At the end of the reporting period, the ageing analysis of the trade receivables is as follows:

|                              | <b>Group</b>        |                   |
|------------------------------|---------------------|-------------------|
|                              | <b>2009</b>         | 2008              |
|                              | <b>HK\$'000</b>     | <b>HK\$'000</b>   |
| Current                      | <u>328</u>          | <u>589</u>        |
| Less than 1 month past due   | <b>610</b>          | 4                 |
| 1 month to 2 months past due | <b>598</b>          | 97                |
| Over 3 months past due       | <u>442</u>          | <u>41</u>         |
|                              | <u><b>1,650</b></u> | <u>142</u>        |
|                              | <u><b>1,978</b></u> | <u><b>731</b></u> |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no history of default.

Included in deposits, prepayments and other receivables are advances to third parties of approximately HK\$3,034,000, which are unsecured, interest-free and have no fixed repayment term.

#### 14. OTHER PAYABLES

|                                    | <b>Group</b>        |                     |
|------------------------------------|---------------------|---------------------|
|                                    | <b>2009</b>         | 2008                |
|                                    | <b>HK\$'000</b>     | <b>HK\$'000</b>     |
| Deferred income                    | <b>2,390</b>        | 1,607               |
| Accrued charges and other payables | <u>669</u>          | <u>809</u>          |
|                                    | <u><b>3,059</b></u> | <u><b>2,416</b></u> |

#### 15. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2009 includes a loss of HK\$12,664,000 (2008: HK\$61,839,000) which has been dealt with in the financial statements of the Company.

#### 16. POST BALANCE SHEET EVENTS

- (i) In January 2010, the Group entered into a ten-year full technical collaboration agreement with China Audio and Video Copyright Association. The parties will work together to provide e-License digital copyrights management system to major service providers of the telecommunication and the Internet and other digital media service providers in the PRC.

- (ii) In February 2010, the Company entered into an agreement with Far Glory Limited (“Far Glory”) to grant a revolving facility by way of a loan agreement of up to a maximum amount of HK\$9,500,000 at any time during the period commencing from the date of the loan agreement and ending on the date falling 36 months from the date of the loan agreement for financing the business development and working capital requirements of the Far Glory Limited and its subsidiaries (“Far Glory Group”).

The Company indirectly holds 51% equity interest in Far Glory Group. Therefore Far Glory is a connected person of the Company under rule 20.11 (5) of the GEM Listing Rules. The loan agreement and the transactions contemplated constitute a continuing connected transaction for the Company. For detailed information, please refer to the announcement of the Company dated 11 February 2010.

## **BUSINESS REVIEW**

The digital licensing and copyright management business became a 51% subsidiary of the Group during the year. After years of negotiations, collaboration arrangements with the Government authorities and major players in the industries were finalised during the year. The ground works for co-operations to create an unprecedented digital copyright management industry in the PRC were laid down. The technical interfacing with a major telecommunication operator and the largest audio/video entertainment on-line portal in the PRC is completed and tested this quarter. Hence, the business will fully launch in the coming quarter of 2010.

### **I. Digital Licensing and Copyright Management Business**

#### *A. Government/Industry*

In April 2009, the Group has entered into a memorandum of understanding with China Audio and Video Copyright Association (“CAVCA”), the only audio/video copyrights management organization approved by the National Copyright Administration of the PRC (國家版權局), according to which CAVCA will co-operate with the Group to provide digital copyright management solution in the wireless network territory. On 25 October, 2009, at the China International Copyright Fair in Beijing, CAVCA formally announced such technology partnership with the Group.

In January 2010, the Group entered into a ten-year full technical collaboration agreement with CAVCA. The parties will work together to provide e-License digital copyrights management system to major service providers of the telecommunication and the Internet and other digital media service providers in the PRC.

#### *B. Telecommunication*

A tripartite agreement was reached among CAVCA, a major telecommunication operator in the PRC and the Group for the provision of e-License digital copyrights management system. The operation is expected to commence in the coming quarter of 2010.

The Group is in final negotiation stage on a tripartite agreement similar to the aforesaid with CAVCA and another major telecommunication operator in the PRC.

### *C. The Internet*

Through the partnership with CAVCA, the Group has reached agreement with the largest audio/video entertainment on-line portal in the PRC for the provision of e-License digital copyrights management system and the development of digital Japanese audio/video entertainment contents (including music, animation, comic, etc) platform on such portal.

## **II. Digital Contents**

The Group has obtained authorisations from two major record labels, avex and Warner/Chappell, for the provision of licensed audio entertainment contents. The Group has entered into agreements with China Unicom for the provision of such licensed contents. The Group is also in negotiation with other major record labels, another major telecommunication operator in the PRC and the largest audio/video entertainment on-line portal in the PRC on the same arrangement.

The Group is the sole agent of a Japanese popular multi-media drama series “Revolution station 5 +25” (“革命station 5+25”) in the PRC, Hong Kong, Taiwan, Macao and is in final negotiation with China Mobile Multimedia Broadcasting, a wholly owned subsidiary of the State Administration of Radio, Film and Television (廣電總局) on broadcasting of such drama series on the mobile network with CMMB specification of a major telecommunication operator in the PRC. The broadcasting is expected to commence in the second quarter of 2010. The Group is in negotiation with an European cultural organisation on assignment of broadcasting time on such mobile network.

## **III. E-Learning business**

The E-Learning business has achieved significant steps forward in 2009.

The Hong Kong Government, in recent years, has placed high emphasis on education particularly the language proficiency and on-line education. The Group is actively working with primary schools in Hong Kong to secure funding from the Hong Kong Government on language enhancement and E-Learning resources projects. With the Group serving over 400 primary and secondary schools in Hong Kong of over 40% penetration rate and the business partnership with Cambridge University Press, the Group is well-positioned to capture such business opportunity and hence, the business will be further expanded.

The Group has entered into an exclusive distribution agreement with mimio, a subsidiary of Newell Rubbermaid (a Standard & Poor’s 500 company). The Group is now the exclusive distributor in Hong Kong and Macao of the mimio interactive whiteboard technologies, and such interactive educational solutions are being widely adopted in the United States, Mexico and many parts of the world.

The Group has successfully penetrated into 100% of the government-owned/aided primary and secondary schools in Macao to provide its interactive English and Portuguese learning platform commissioned by the Macao Education and Youth Bureau.

The Group will build up the necessary profile and expertise to expand the business into the PRC and at the same time, the Group will explore business opportunities to develop on-line digital education platform in the PRC through its existing networks and relationships.

#### **IV. In-car navigation system and other developments**

To capitalise on the aforesaid developments of the digital licensing and copyright management and content businesses, the Group has deployed all the necessary resources on research and development, system localisation and customisation to further enter into in-car navigation system and other digital media.

The Group will provide licensed/invested audio and video entertainment contents to the in-car navigation system installed in the high-ended brands of Japanese automakers using e-License digital copyrights management system for allocation of copyrights income and will subsequently extend to other high-ended brands. The Group will also provide e-License digital copyrights management system and licensed/invested contents for Background Music (BGM), Internet bar and Karaoke (Web-based) via fixed line and broadband network.

### **FINANCIAL REVIEW**

#### **Results**

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK\$4,150,000 (2008: approximately HK\$985,000). The increase in turnover was driven by the robust growth in sales of e-Learning business.

Administrative expenses for the year ended 31 December 2009 decreased by approximately 48.6 % to approximately HK\$15,044,000 as compared to approximately HK\$29,284,000 in last year.

Net loss attributable to shareholders for the year ended 31 December 2009 was reduced to approximately HK\$8,767,000, a 86.7% improvement, as compared to a net loss of approximately HK\$66,159,000 in last year. Such improvement was mainly attributable to the decrease in the overhead expenses resulting from the disposal of loss making businesses in the previous year.

## **Liquidity and financial resources**

As at 31 December 2009, the Group had current assets of approximately HK\$42,454,000 (2008: HK\$15,926,000) and current liabilities of approximately HK\$3,746,000 (2008: HK\$8,527,000). The current assets were comprised mainly of cash and bank balances of HK\$29,052,000 (2008: HK\$12,109,000) and trade and other receivables of HK\$11,674,000 (2008: HK\$1,473,000). The Group's current liabilities were comprised mainly of other payables of approximately HK\$3,059,000 (2008: HK\$2,416,000). The Group had no bank borrowings at 31 December 2009 (2008: Nil). As at 31 December 2009, the Group had a current ratio of approximately 11.3 as compared to that of 1.87 at 31 December 2008.

Most of the trading transactions, assets and liabilities of the Group are denominated in Hong Kong dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risks. As at 31 December 2009, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

## **MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES**

- (a) On 19 January 2009, the Company completed the disposal of 100% equity interest in KanHan Technologies Inc. at a consideration of HK\$1,000,000. Details of the disposal were set out in the circular of the Company dated 31 December 2008.
- (b) On 14 August 2009, Cheer Plan Limited ("Cheer Plan"), a wholly-owned subsidiary of the Company entered into an agreement with Mr. Yuan Sheng Jun (the "Vendor") in relation to the acquisition of 9.17% equity interest held by the Vendor in Far Glory Limited ("Far Glory") for a total consideration of HK\$13,755,000 and such acquisition was completed on 28 September 2009. The consideration was fully settled by the issue of 146,329,787 new shares of the Company to the Vendor on 28 September 2009.

Upon completion of the acquisition, Cheer Plan holds 29.43% equity interest in Far Glory. Details of the acquisition were set out in the circular dated 8 September 2009.

- (c) On 8 October 2009, Cheer Plan, a wholly-owned subsidiary of the Company entered into an agreement with Daily Technology Company Limited (the "Vendor") in relation to the acquisition of 21.57% equity interest held by the Vendor in Far Glory for a total consideration of HK\$32,355,000. The consideration was partially settled by the issue of convertible bonds with nominal value of HK\$26,903,000, and the balance of HK\$5,452,000 was settled by the issue of 58,000,000 new shares of the Company.

Upon completion of the acquisition on 16 December 2009, Cheer Plan holds 51% equity interest in Far Glory. Details of the acquisition were set out in the circular dated 23 November 2009.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2009, the Company does not have any reserves available for cash distribution and/or distribution in specie. In addition, the Company's share premium account with a balance of approximately HK\$100,826,000 as at 31 December 2009 (2008: HK\$68,103,000).

## **FOREIGN EXCHANGE RISK**

Since almost all transactions of the Group are denominated either in Hong Kong dollars and Renminbi and most of the bank deposits are being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risk, the directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

## **CONTINGENT LIABILITIES**

As at 31 December 2009, the Group had no material contingent liabilities.

## **EMPLOYEE INFORMATION**

As at 31 December 2009, the Group had 23 (2008: 40) full-time employees. Employee costs for the year 2009, excluding directors' emoluments, amounted to approximately HK\$5,772,000 (2008: HK\$8,151,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided. In addition, training and development courses are offered throughout the Group to upgrade employee skills and knowledge.

The Group also adopts an employee share option scheme to provide eligible employees performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

## **COMPETING INTERESTS**

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

## **CONNECTED TRANSACTIONS**

- (a) On 5 December 2008, the Company entered into an agreement with Mr. Mo Wai Ming, Lawrence (“Mr. Mo”), an executive director of the Company resigned on 19 January 2009, for the disposal of the entire equity interest in KanHan Technologies Inc. at a consideration of HK\$1,000,000. Since Mr. Mo was an executive director of the Company at the time of entering into the disposal agreement, the disposal therefore constituted a connected transaction on the part of the Company under the GEM Listing Rules. The disposal transaction was completed on 19 January 2009.
- (b) On 14 August 2009, Cheer Plan a wholly-owned subsidiary of the Company entered into an agreement with Mr. Yuan Sheng Jun (the “Vendor”) in relation to the acquisition of 9.17% equity interest held by the Vendor in Far Glory for a total consideration of HK\$13,755,000. Since Mr. Hsu Tung Sheng, an executive director of the Company and his younger brother, Mr. Hsu Tung Chi are substantial shareholders of Far Glory, the acquisition therefore constituted a connected transaction on the part of the Company under the GEM Listing Rules. The acquisition was completed on 28 September 2009.
- (c) On 8 October 2009, Cheer Plan a wholly-owned subsidiary of the Company entered into an agreement with Daily Technology Company Limited (the “Vendor”) in relation to the acquisition of 21.57% equity interest held by the Vendor in Far Glory for a total consideration of HK\$32,355,000. Since Mr. Hsu Tung Chi, being the substantial shareholder of the Vendor is the younger brother of Mr. Hsu Tung Sheng, an executive director of the Company, the acquisition therefore constituted a connected transaction on the part of the Company under the GEM Listing Rules. The acquisition was completed on 16 December 2009.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the year ended 31 December 2009 except that no nomination committee of the Board is established.

No nomination committee was established by the Company. The Board is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Board will review the qualifications of the relevant candidate for determining the suitability to the Group on the basis of his qualifications, experience and background.

## **DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2009.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments on the Company draft annual reports and accounts, interim reports and quarterly reports to directors. The audit committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Lee Kun Hung, all of them are independent non-executive directors. The chairman of the audit committee is Mr. Kwok Chi Sun, Vincent.

The Group's unaudited quarterly and interim results and annual results for the year ended 31 December 2009 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosure has been made.

## **SCOPE OF WORK OF MAZARS CPA LIMITED**

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Group's auditor, Mazars CPA Limited ("Mazars"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars on the preliminary announcement.

By Order of the Board  
**Pang Hong Tao**  
Chairman

29 March 2010

*As at the date of this announcement, the executive Directors are Mr. Pang Hong Tao, Mr. Hsu Tung Sheng and Ms. Au Shui Ming, Anna. The non-executive Director is Mr. Ma She Shing, Albert. The independent non-executive Directors are Mr. Wong Tak Shing, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent.*

*This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at [www.chinadigitallic.com](http://www.chinadigitallic.com).*