



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)



First Quarterly Report 2009

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

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This report, 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of China Digital Licensing (Group) Limited (the "Company") would like to report the unaudited consolidated results of the Company and its subsidiaries (together, "the Group") for the three months ended 31 March 2009 together with the comparative figures for the corresponding period in 2008 as follows:-

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2009

	Notes	Three months ended 31 March	
		2009 HK\$'000	2008 HK\$'000
Turnover	3		
Continuing operations		937	-
Discontinued operations		173	2,247
		1,110	2,247
Cost of sales		(192)	(1,386)
Gross profit		918	861
Other revenues and gains		-	258
Research and development expenses		(47)	(211)
Selling and distribution expenses		(37)	(340)
Administrative expenses		(1,842)	(5,148)
Finance costs		(253)	-
Loss from operating activities		(1,261)	(4,580)
Gain on disposal of subsidiaries		4,703	-
Share of losses from associates		(17)	-
Profit (Loss) before taxation			
Continuing operations		(1,249)	(2,153)
Discontinued operations		4,674	(2,427)
		3,425	(4,580)
Taxation	4		
Continuing operations		(77)	-
Discontinued operations		-	-
		(77)	-
Profit (Loss) for the period			
Continuing operations		(1,326)	(2,153)
Discontinued operations		4,674	(2,427)
		3,348	(4,580)
Attributable to:			
Equity holders of the Company		3,157	(3,924)
Minority interests		191	(656)
		3,348	(4,580)
Earnings (Loss) per share – Basic	6		
From continuing and discontinued operations		0.24 cents	(0.29 cents)
From continuing operations		(0.11 cents)	(0.16 cents)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2009

	Share capital	Share premium	Special reserve	Convertible notes reserve	Exchange reserve	Employee share-based compensation reserve	Accumulated losses	Subtotal	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)							
2008										
At 1 January 2008	66,519	68,861	10,084	-	543	-	(46,351)	99,656	18,019	117,675
Share issue expenses	-	759	-	-	-	-	-	759	-	759
Acquisition of subsidiary	-	-	-	-	-	-	-	-	5,468	5,468
Issue of convertible bonds	-	-	-	1,568	-	-	-	1,568	-	1,568
Exchange realignment	-	-	-	-	652	-	-	652	661	1,313
Loss for the period	-	-	-	-	-	-	(3,924)	(3,924)	(656)	(4,580)
At 31 March 2008	66,519	69,620	10,084	1,568	1,195	-	(50,275)	98,711	23,492	122,203
2009										
At 1 January 2009	66,519	68,103	10,084	2,836	(69)	4,354	(112,510)	39,317	672	39,989
Disposal of subsidiaries	-	-	-	-	69	-	-	69	-	69
Profit for the period	-	-	-	-	-	-	3,157	3,157	191	3,348
At 31 March 2009	66,519	68,103	10,084	2,836	0	4,354	(109,353)	42,543	863	43,406

Note:

- (a) The special reserve represents the difference between the nominal amount of shares and share premium of the subsidiaries at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation taken place in 2003.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 10 October 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The shares of the Company were listed on the GEM of the Stock Exchange on 25 February 2003.

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

2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The measurement basis used in the preparation of these unaudited consolidated results is historical cost.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2008.

3. TURNOVER

Turnover comprises revenues from the following business activities of the Group:

	Three months ended	
	31 March	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Continuing operations		
E-learning business	937	–
Discontinued operations		
Sales of licensed software	71	859
Software maintenance	78	288
Software rental and subscription income	18	87
Website development	–	250
Putonghua learning platform	6	230
Sales of organic fertilizers	–	423
Provision of water supply services	–	110
	1,110	2,247

4. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2009 (2008: Nil).

6. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing the net profit (loss) attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue.

	Three months ended 31 March	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
For continuing and discontinued operations		
Profit (Loss) attributable to equity holders of the Company	3,157	(3,924)
For continuing operations		
Loss attributable to equity holders of the Company	(1,517)	(2,153)
	Number of shares	
Weighted average number of ordinary shares in issue	1,330,375,080	1,330,375,080

No diluted earnings (loss) per share is presented as the exercise of the outstanding share options and the conversion of the convertible bonds of the Company are anti-dilutive.

7. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first quarter of 2009 was the beginning of a new era of the Group with the completion of the business restructuring undertaken in 2008. Since then, the Group has focused on the E-Learning business and the digital licensing and copyright management business. With all the loss making businesses disposed and the corresponding decrease in overhead expenses, the Group achieved slight profitability during the period.

E-Learning Business

During the period, the Group successfully organized two major events – the “Create My Smart Cambridge Storybook Contest” with Cambridge University Press. Over 60,000 students from over 80 primary schools in Hong Kong and Macao participated in the competition, and the “Smart Maths Brain Contest” with over 100,000 contestants from 100 primary schools in Hong Kong.

In addition to the co-operation agreement with China Network Communications Group Corporation in Jiangsu, the PRC (中國網絡通信集團公司), the Group is holding a nationwide English storytelling contest in the PRC with Cambridge University Press and other partners in the PRC. Such contest serves as a series of promotional activities through which the E-Learning business will be further developed in the PRC.

The Board is of the view that with the improving living standards, high emphasis on education for the next generation and the accomplished internet network in the PRC, the E-Learning business is of high profitability potential. Hence, the Group will continue to direct its resources on such business.





Investment in Digital Licensing and Copyright Management Business and Prospects

The Group owns 20.26% shareholding interest in a digital licensing business which 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.

With the introduction of 3G in the PRC earlier this year and the growing popularity of Internet for entertainment purpose in the PRC, the Group is of the view that development of its digital licensing business in the areas of Internet and telecommunications are of high profitability potential in the PRC. The Group has been in active negotiations with the relevant PRC Government authorities and the telecommunication operators in the PRC for the provision of copyright management solution and the distribution of copyright protected contents (such as music, E-Learning, network games, etc.). Such business arrangements are of high growth potential and will generate meaningful profitability to the Group in medium to long terms.

FINANCIAL REVIEW

For the three months ended 31 March 2009, the Group recorded a turnover of approximately HK\$1,110,000 (2008: approximately HK\$2,247,000), representing a decrease of 50.6% compared to the same period last year. The decrease in turnover was mainly attributable to the disposal of agriculture-related business in the previous year and the disposal of language related software business during the reporting period.

During the period, the e-Learning business achieved a turnover of approximately HK\$937,000, as compared with the audited turnover of HK\$985,000 for the year ended 31 December 2008.

The gross profit margin of the Group increased from approximately 38.3% in the previous corresponding period to approximately 82.7% in the current period. Such increase was mainly attributable to the e-Learning business which contributed high profit margin.

The Group reported a net profit attributable to shareholders of approximately HK\$3,157,000 for the three months ended 31 March 2009, compared to a net loss of approximately HK\$3,924,000 in the previous corresponding period. The profit was mainly attributed to (i) the gain on disposal of the language related software business; and (ii) the decrease in administrative expenses of approximately 64.2% as a result of the disposal of the agriculture-related business in the previous year.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2009, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows.

Long positions in shares

Name of director	Nature of interest	Number of shares held	Approximate percentage of issued share capital of the Company
Mr. Pang Hong Tao	Beneficial	10,500,000	0.79%
Mr. Ma She Shing, Albert	Beneficial	870,000	0.07%
Ms. Au Shui Ming, Anna	Beneficial	22,500,000	1.69%

Save as disclosed above, as at 31 March 2009, none of the directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.



SHARE OPTION SCHEME

On 24 January 2003, a Share Option Scheme (the "Scheme") was approved by a written resolution of the Company. Details of the movements in the number of share options during the period under the Scheme were as follows:

Categories of grantees	As at 1 January 2009	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 March 2009	Exercise price HK\$	Grant date	Exercisable period
Directors								
Mr. Pang Hong Tao	6,300,000	-	-	-	6,300,000	0.151	21/12/2007	18/1/2008 – 20/12/2017
	7,000,000	-	-	-	7,000,000	0.101	28/8/2008	16/9/2008 – 27/8/2018
Ms. Au Shui Ming, Anna	6,000,000	-	-	-	6,000,000	0.151	21/12/2007	18/1/2008 – 20/12/2017
	7,000,000	-	-	-	7,000,000	0.101	28/8/2008	16/9/2008 – 27/8/2018
Mr. Ma She Shing, Albert	10,000,000	-	-	-	10,000,000	0.101	28/8/2008	16/9/2008 – 27/8/2018
Employees	31,000,000	-	-	-	31,000,000	0.101	28/8/2008	16/9/2008 – 27/8/2018
	67,300,000	-	-	-	67,300,000			

SUBSTANTIAL SHAREHOLDERS

Interests of substantial shareholders

So far as is known to the directors, as at 31 March 2009, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Nature of interest	Number of shares held	Approximate percentage of issued share capital of the Company
Mr. Lau Kim Hung, Jack (Note 1)	Interest of controlled corporation	299,478,238(L)	22.51%
Ms. Chan Yiu Kan Katie (Note 1)	Deemed	299,478,238(L)	22.51%
Manciple Enterprises Limited (Note 1)	Beneficial	299,478,238(L)	22.51%
Ms. Wong Chau Wan, Sanny (Note 2)	Beneficial Deemed	1,210,000(L) 131,704,400(L)	9.99%
Mr. Wong Ming Kerry (Note 2)	Beneficial Interest of controlled corporation Deemed	11,474,400(L) 120,230,000(L) 1,210,000(L)	9.99%
Digital Epoch Profits Limited (Note 2)	Beneficial	120,230,000(L)	9.04%
Mr. Hsu Tung Chi (Note 3)	Beneficial	222,222,222(L)	16.70%
Ms. Chuang Meng Hua (Note 3)	Deemed	222,222,222(L)	16.70%

(L) denotes long position

Notes:

1. Manciple Enterprises Limited ("**Manciple**") is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("**Mr. Lau**"). Manciple beneficially owns 299,478,238 shares. Under the SFO, Mr. Lau is deemed to be interested in 299,478,238 shares. Ms. Chan Yiu Kan Katie, the wife of Mr. Lau, is also deemed to be interested in 299,478,238 shares.
2. Digital Epoch Profits Limited ("**Digital Epoch**") is wholly and beneficially owned by Mr. Wong Ming Kerry ("**Mr. Wong**"). Digital Epoch beneficially owns 120,230,000 shares. Under the SFO, Mr. Wong is deemed to be interested in the said 120,230,000 shares.

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

3. According to the sale and purchase agreement entered into among Cheer Plan Limited, a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi ("**Mr. Hsu**") and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will allot a maximum of 222,222,222 convertible bonds to Mr. Hsu.

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

Save as disclosed above, as at 31 March 2009, the directors were not aware of any other person (other than the directors and the chief executive the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

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 business of the Group.

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

During the period ended 31 March 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 31 March 2009.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

During the three months ended 31 March 2009, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules, except that (i) no nomination committee of the Board is established, and (ii) the roles of chairman and chief executive officer of the Company were not separated and were performed by the same individual, Mr. Pang Hong Tao throughout the reporting period.



PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AUDIT COMMITTEE

The Company established an audit committee on 24 January 2003 with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The audit committee comprises Mr. Hsu William Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent, who are the independent non-executive directors of the Company.

The Group's unaudited consolidated financial statements for the three months ended 31 March 2009 have been reviewed by the audit committee, which was of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

As at the date of this report, the executive directors are Mr. Pang Hong Tao and Ms. Au Shui Ming, Anna. The non-executive director is Mr. Ma She Shing, Albert. The independent non-executive directors are Mr. Hsu William Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent.

By Order of the Board

Pang Hong Tao

Chairman

Hong Kong, 14 May 2009