



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)



Third Quarterly Report 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 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.*



## THIRD 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 nine months ended 30 September 2009 together with the comparative figures for the corresponding period in 2008 as follows:–

### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2009

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Turnover	3				
Continuing operations		813	158	2,732	171
Discontinued operations		-	1,094	173	6,596
Cost of sales		813 (260)	1,252 (599)	2,905 (596)	6,767 (5,505)
Gross profit		553	653	2,309	1,262
Other revenues and gains		-	24	35	999
Research and development expenses		-	(276)	(47)	(750)
Selling and distribution expenses		-	(218)	(37)	(851)
Administrative expenses		(1,890)	(3,984)	(7,051)	(9,728)
Other expenses		-	(1,340)	-	(13,138)
Finance costs		(195)	(200)	(764)	(393)
Loss from operating activities		(1,532)	(5,341)	(5,555)	(22,599)
Gain/(Loss) on disposal of subsidiaries		-	(35,118)	4,703	(30,562)
Share of losses from associates		(19)	(10)	(57)	(10)
Profit/(Loss) before taxation					
Continuing operations		(1,551)	(2,265)	(5,583)	(8,724)
Discontinued operations		-	(38,204)	4,674	(44,447)
		(1,551)	(40,469)	(909)	(53,171)

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2009

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Taxation	4				
Continuing operations		(31)	-	(181)	-
Discontinued operations		-	-	-	3,654
		<b>(31)</b>	-	<b>(181)</b>	3,654
Profit/(Loss) for the period					
Continuing operations		(1,582)	(2,265)	(5,764)	(8,724)
Discontinued operations		-	(38,204)	4,674	(40,793)
		<b>(1,582)</b>	(40,469)	<b>(1,090)</b>	(49,517)
Other comprehensive income					
Exchange differences arising on translation of financial statements of oversea subsidiaries		-	(1,244)	69	(84)
Total comprehensive income for the period		<b>(1,582)</b>	(41,713)	<b>(1,021)</b>	(49,601)
Profit/(Loss) for the period attributable to:					
Equity holders of the Company		(1,498)	(39,339)	(1,377)	(45,210)
Minority interests		(84)	(1,130)	287	(4,307)
		<b>(1,582)</b>	(40,469)	<b>(1,090)</b>	(49,517)
Total comprehensive income attributable to:					
Equity holders of the Company		(1,498)	(39,922)	(1,308)	(45,294)
Minority interests		(84)	(1,791)	287	(4,307)
		<b>(1,582)</b>	(41,713)	<b>(1,021)</b>	(49,601)
Loss per share					
- Basic	6				
From continuing and discontinued operations		<b>(0.10 cents)</b>	(2.96 cents)	<b>(0.10 cents)</b>	(3.40 cents)
From continuing operations		<b>(0.10 cents)</b>	(0.17 cents)	<b>(0.44 cents)</b>	(0.65 cents)

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 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)							
<b>2008</b>										
At 1 January 2008	66,519	68,861	10,084	-	543	-	(46,351)	99,656	18,019	117,675
Share issue expenses	-	(758)	-	-	-	-	-	(758)	-	(758)
Employee share-based compensation	-	-	-	-	-	1,196	-	1,196	-	1,196
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	6,019	6,019
Disposal of subsidiaries	-	-	-	-	(616)	-	-	(616)	(19,212)	(19,828)
Issue of convertible bonds	-	-	-	2,279	-	-	-	2,279	-	2,279
Exchange realignment	-	-	-	-	(84)	-	-	(84)	-	(84)
Loss for the period	-	-	-	-	-	-	(45,210)	(45,210)	(4,307)	(49,517)
At 30 September 2008	66,519	68,103	10,084	2,279	(157)	1,196	(91,561)	56,463	519	56,982
<b>2009</b>										
At 1 January 2009	66,519	68,103	10,084	2,836	(69)	4,354	(112,510)	39,317	672	39,989
Shares issued upon exercise of share options	4,945	5,859	-	-	-	(3,125)	-	7,679	-	7,679
Employee share-based compensation	-	-	-	-	-	1,711	-	1,711	-	1,711
Issue of consideration shares	7,316	6,439	-	-	-	-	-	13,755	-	13,755
Redemption of convertible notes	-	-	-	(296)	-	-	-	(296)	-	(296)
Disposal of subsidiaries	-	-	-	-	69	-	-	69	-	69
Profit (Loss) for the period	-	-	-	-	-	-	(1,377)	(1,377)	287	(1,090)
At 30 September 2009	78,780	80,401	10,084	2,540	0	2,940	(113,887)	60,858	959	61,817

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		Nine months ended	
	30 September		30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
<b>Continuing operations</b>				
E-learning business	813	158	2,732	171
<b>Discontinued operations</b>				
Sales of licensed software	-	149	71	3,002
Software maintenance	-	339	78	980
Software rental and subscription income	-	120	18	360
Website development	-	-	-	358
Putonghua learning platform	-	231	6	680
Agriculture-related products	-	255	-	1,216
	<b>813</b>	1,252	<b>2,905</b>	6,767

#### 4. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the periods. 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.

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current year provision				
Hong Kong profits tax	(31)	-	(181)	-
Overprovision in prior year	-	-	-	3,654
Tax credit/(charge) for the period	(31)	-	(181)	3,654

In May 2008, a subsidiary of the Company has been granted an exemption of PRC enterprise income tax by the Taxation Bureau.

#### 5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 30 September 2009 respectively (2008: Nil).

## 6. LOSS PER SHARE

Basis loss per share is calculated by dividing the net loss attributable to shareholders by the weighted average number of ordinary shares in issue.

	Three months ended		Nine months ended	
	30 September		30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
For continuing and discontinued operations				
Loss attributable to shareholders	(1,498)	(39,339)	(1,377)	(45,210)
For continuing operations				
Loss attributable to shareholders	(1,498)	(2,233)	(6,051)	(8,692)
	<b>Number of shares</b>			
Weighted average number of ordinary shares in issue	1,430,363,008	1,330,375,080	1,374,742,807	1,330,375,080

No diluted loss per share was 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 re-classified to conform with current period's presentation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Operation Review

#### ***E-learning business***

During the period, the Group served over 400 primary and secondary schools in Hong Kong with our interactive English, Chinese and Mathematics learning platforms, which represents approximately 40% penetration rate. The Group is also working with many schools in Hong Kong to develop curriculum-based e-learning resources and transform the traditional classrooms into digital classrooms.

In addition, the Group successfully launched the Group's interactive English learning platform to over 60,000 primary and secondary school students in Macao. This e-learning project has been commissioned by the Macao Education & Youth Affairs Bureau. The Group has also been commissioned to collaborate with Macau Inter-University Institute to provide the first ever online Portuguese learning platform to all the primary and secondary school students in Macao.

The Group will replicate its success in Hong Kong and Macao into China and other regions in Asia.

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

The Group's shareholding interest in the digital licensing and copyright management business increased from 20.26% to 29.43% during the period and will further increase to 51% upon completion of acquisition of additional 21.57% shareholding interest during the period. Such business involves the provision of digital copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.





Over the past three years, the Group has been working closely with the PRC Government authorities including China Audio and Video Copyright Association (“CAVCA”), major players in the industries and its Japan partners to complete the negotiation of mutually beneficial agreements which lay the ground works for co-operations to create an unprecedented digital copyright management industry in the PRC.

In April 2009, the Group has entered into an agreement with CAVCA according to which CAVCA will co-operate with the Group to provide digital copyright management solution in the wireless network territory including mobile 3G network and the Internet. On 25 October 2009, at the China International Copyright Fair in Beijing, CAVCA formally announced such a technology partnership with the Group.

With the introduction of 3G in the PRC earlier this year and the growing popularity of the 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. During the period, the Group has achieved major breakthroughs in such areas.

**Telecommunication sector**

A tripartite agreement was reached among CAVCA, a major telecommunication operator in the PRC and the Group for the provision of digital copyright management solution and the distribution of copyright protected music contents in the mobile 3G network on an exclusive basis. Such agreement is expected to be executed by the end of this year.

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.



The Group has completed negotiation with a major telecommunication operator in the PRC on the development of copyright protected Japanese music contents platform on the mobile 3G network and the provision of copyright protected entertainment contents to the multi-media broadcasting channels of such telecommunication operator. The provision of such service is expected to commence next quarter.

### ***The Internet sector***

Through the partnership with CAVCA, the Group has, in principle, reached agreement with the largest music on-line portal in the PRC for the provision of digital copyright management solution in the Internet. Meanwhile, the Group is close to finalise the negotiations with the other major music industry players for provision of the same arrangement.

Through the partnerships and strategic co-operations mentioned above, the Board is optimistic that the Group will achieve significant breakthrough on the financial performance in the coming fiscal year and at the same time create a new era for the digital copyright management industry in the PRC.

### **Financial Review**

For the nine months ended 30 September 2009, the Group recorded a turnover of approximately HK\$2,905,000 (2008: approximately HK\$6,767,000), representing a decrease of 57.1% compared to the same period last year. The decrease in turnover was mainly attributable to the disposal of agriculture-related business and the disposal of language related software business in the previous year and the first quarter of 2009 respectively.

The gross profit margin of the Group increased from approximately 18.6% in the previous corresponding period to approximately 79.5% in the current period. Such increase was mainly due to the e-Learning business which contributed high profit margin.





The Group reported a net loss attributable to shareholders of approximately HK\$1,377,000 for the nine months ended 30 September 2009, compared to a net loss of approximately HK\$45,210,000 in the previous corresponding period. The improvement was due to the disposal of loss making businesses and the corresponding decrease in the overhead expenses.

## **PLACING OF NEW SHARES**

On 8 September 2009, the Company entered into the placing agreement with the placing agent, whereby the Company has conditionally agreed to place, through the placing agent, an aggregate of 273,000,000 placing shares, on a best-effort basis, to not fewer than six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons at a price of HK\$0.105 per placing share. The placing was completed on 30 October 2009. Details of the placing were set out in the Company's announcements dated 8 September 2009 and 30 October 2009 respectively.

## **MATERIAL ACQUISITIONS OR 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 to the Vendor on 28 September 2009. Upon the 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.

## **POST BALANCE SHEET EVENTS**

- (a) On 8 October 2009, Cheer Plan Limited (“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 Limited (“Far Glory”) for a total consideration of HK\$32,355,000. Upon completion of the acquisition, Cheer Plan will hold 51% equity interest in Far Glory.

Details of the acquisition were set out in the announcement dated 15 October 2009.

- (b) On 30 October 2009, the Company completed the placement of 273,000,000 new shares to not fewer than six placees who were third parties independent of the Company and its connected persons. The net proceeds from the placing amounted to approximately HK\$27.5 million.



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

As at 30 September 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*

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of issued share capital of the Company</b>
Mr. Hsu Tung Sheng	Beneficial	13,000,000	0.83%
Mr. Pang Hong Tao	Beneficial	21,500,000	1.36%
Mr. Ma She Shing, Albert	Beneficial	9,870,000	0.63%
Ms. Au Shui Ming, Anna	Beneficial	35,500,000	2.25%

Save as disclosed above, as at 30 September 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 30 September 2009	Exercise price HK\$	Grant date	Exercisable period
<b>Directors</b>								
Mr. Hsu Tung Sheng	-	13,000,000	(13,000,000)	-	-	0.059	2/4/2009	2/4/2009 - 1/4/2014
Mr. Pang Hong Tao	6,300,000	-	-	-	6,300,000	0.151	21/12/2007	18/1/2008 - 20/12/2017
	7,000,000	-	(5,000,000)	-	2,000,000	0.101	28/8/2008	16/9/2008 - 27/8/2018
	-	6,000,000	(6,000,000)	-	-	0.059	2/4/2009	2/4/2009 - 1/4/2014
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
	-	6,000,000	(6,000,000)	-	-	0.059	2/4/2009	2/4/2009 - 1/4/2014
Mr. Ma She Shing, Albert	10,000,000	-	(9,000,000)	-	1,000,000	0.101	28/8/2008	16/9/2008 - 27/8/2018
<b>Employees</b>	31,000,000	-	(22,900,000)	-	8,100,000	0.101	28/8/2008	16/9/2008 - 27/8/2018
	-	30,000,000	(30,000,000)	-	-	0.059	2/4/2009	2/4/2009 - 1/4/2014
	67,300,000	55,000,000	(98,900,000)	-	23,400,000			

## SUBSTANTIAL SHAREHOLDERS

### Interests of substantial shareholders

So far as is known to the directors, as at 30 September 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:

<b>Name of shareholder</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of issued share capital of the Company</b>
Mr. Lau Kim Hung, Jack (Note 1)	Interest of controlled corporation	395,698,238(L)	25.11%
	Deemed	4,500,000(L)	0.29%
Ms. Chan Yiu Kan Katie (Note 1)	Beneficial	4,500,000(L)	0.29%
	Deemed	395,698,238(L)	25.11%
Manciple Enterprises Limited (Note 1)	Beneficial	395,698,238(L)	25.11%
Mr. Hsu Tung Chi (Note 2)	Beneficial	166,666,666(L)	10.58%
Ms. Chuang Meng Hua (Note 2)	Deemed	166,666,666(L)	10.58%

(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 395,698,238 shares. Under the SFO, Mr. Lau is deemed to be interested in 395,698,238 shares.

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

2. 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 notes to Mr. Hsu. During the reporting period, 55,555,556 convertible notes were redeemed by the Company. As at 30 September 2009, there were 166,666,666 convertible notes outstanding.

Ms. Chuang Meng Hua is deemed to be interested in 166,666,666 convertible notes of the Company by virtue of her being the spouse of Mr. Hsu.

Save as disclosed above, as at 30 September 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 30 September 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 30 September 2009.

## **COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE**

During the nine months ended 30 September 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 no nomination committee of the Board is established.



## 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 nine months ended 30 September 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. Hsu Tung Sheng, 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 of  
**China Digital Licensing (Group) Limited**  
**Pang Hong Tao**  
*Chairman*

Hong Kong, 13 November 2009