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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 2010

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 Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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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 2010 together with the comparative audited figures for the year 2009, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Continuing operations			
Turnover	5	**6,973**	4,150
Cost of services rendered and cost of good sold		**(2,244)**	(764)
Gross profit		**4,729**	3,386
Other income	6	**40**	40
Selling and distribution costs		**(363)**	(275)
Administrative and other expenses		**(32,186)**	(15,044)
Finance costs	7	**(1,247)**	(947)
Share of losses of jointly controlled entities		**–**	(69)
Loss before taxation	8	**(29,027)**	(12,909)
Income tax expense	9	**(65)**	(224)
Loss for the year from continuing operations		**(29,092)**	(13,133)
Profit for the year from discontinued operations		**–**	4,674
Loss for the year		**(29,092)**	(8,459)
Other comprehensive income for the year			
Currency translation differences		**169**	–
Income tax relating to other comprehensive income		**–**	–
		169	–
Total comprehensive loss for the year		**(28,923)**	(8,459)
(Loss) Profit attributable to:			
Equity holders of the Company	13	**(21,452)**	(8,767)
Non-controlling interests		**(7,640)**	308
		(29,092)	(8,459)
Total comprehensive (loss) income attributable to:			
Equity holders of the Company		**(21,366)**	(8,767)
Non-controlling interests		**(7,557)**	308
		(28,923)	(8,459)
Basic and diluted (loss) earnings per share	10		
From continuing and discontinued operations		**HK (1.03) cents**	HK(0.59) cents
From continuing operations		**HK (1.03) cents**	HK(0.91) cents
From discontinued operations		**–**	HK0.32 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment		**54**	100
Interests in jointly controlled entities		**–**	–
Due from jointly controlled entities		**15,706**	9,455
Goodwill		**109,296**	109,296
		125,056	118,851
Current assets			
Inventories		**246**	143
Trade and other receivables	*11*	**28,922**	11,674
Tax recoverable		**163**	–
Due from a director of a subsidiary		**1,585**	1,585
Bank balances and cash		**44,645**	29,052
		75,561	42,454
Current liabilities			
Other payables	*12*	**4,141**	3,059
Loans from non-controlling interests		**–**	490
Convertible bonds		**3,928**	–
Earn-out payable		**18,000**	–
Tax payable		**–**	197
		26,069	3,746
Net current assets		**49,492**	38,708
Total assets less current liabilities		**174,548**	157,559
Non-current liabilities			
Convertible bonds		**22,174**	24,895
Earn-out payable		**–**	18,000
Deferred tax liabilities		**4**	16
		22,178	42,911
NET ASSETS		**152,370**	114,648
Capital and reserves			
Share capital		**109,754**	97,029
Reserves		**36,704**	4,414
Equity attributable to equity holders of the Company		**146,458**	101,443
Non-controlling interests		**5,912**	13,205
TOTAL EQUITY		**152,370**	114,648

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to equity holders of the Company										
		Reserves									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Employee share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total reserves HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total 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
Loss for the year	–	–	–	–	–	–	(8,767)	(8,767)	(8,767)	308	(8,459)
Other comprehensive income	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive (loss) income for the year	–	–	–	–	–	–	(8,767)	(8,767)	(8,767)	308	(8,459)
Transactions with owners											
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
	30,510	32,723	–	69	3,291	3,424	876	40,383	70,893	12,225	83,118
At 31 December 2009	97,029	100,826	10,084	–	7,645	6,260	(120,401)	4,414	101,443	13,205	114,648

	Attributable to equity holders of the Company											
		Reserves										
	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000*	Warrant reserve *HK$'000*	Exchange reserve *HK$'000*	Employee share-based payment reserve *HK$'000*	Convertible bonds reserve *HK$'000*	Accumulated losses *HK$'000*	Total reserves *HK$'000*	Subtotal *HK$'000*	Non–controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2010	**97,029**	**100,826**	**10,084**	**–**	**–**	**7,645**	**6,260**	**(120,401)**	**4,414**	**101,443**	**13,205**	**114,648**
Loss for the year	–	–	–	–	–	–	–	(21,452)	(21,452)	(21,452)	(7,640)	(29,092)
Other comprehensive income												
Currency translation differences	–	–	–	–	86	–	–	–	86	86	83	169
Total comprehensive income (loss) for the year	–	–	–	–	86	–	–	(21,452)	(21,366)	(21,366)	(7,557)	(28,923)
Transactions with owners												
Placing new shares	5,175	23,081	–	–	–	–	–	–	23,081	28,256	–	28,256
Share placing expenses	–	(1,060)	–	–	–	–	–	–	(1,060)	(1,060)	–	(1,060)
Employee share-based payment	–	–	–	–	–	10,323	–	–	10,323	10,323	–	10,323
Exercise of share options	6,550	22,278	–	–	–	(5,717)	–	–	16,561	23,111	–	23,111
Issue of unlisted warrants	–	–	–	311	–	–	–	–	311	311	–	311
Exercise of unlisted warrants	1,000	4,460	–	(20)	–	–	–	–	4,440	5,440	–	5,440
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	264	264
	12,725	48,759	–	291	–	4,606	–	–	53,656	66,381	264	66,645
At 31 December 2010	**109,754**	**149,585**	**10,084**	**291**	**86**	**12,251**	**6,260**	**(141,853)**	**36,704**	**146,458**	**5,912**	**152,370**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2010

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, including languages and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macao.

2. STATEMENT OF COMPLIANCE

These consolidated 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 consolidated 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 consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2009 consolidated 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 consolidated financial statements.

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

3. PRINCIPAL ACCOUNTING POLICIES

Adoption of new/revised HKFRS

Amendments to HKFRS 2: *Group Cash-settled Share-based Payment Transactions*

The Amendments incorporate the guidance in HK(IFRIC) – Int 8: *Scope of HKFRS 2* and HK(IFRIC) – Int 11: *HKFRS 2 – Group and Treasury Share Transactions*. In addition to this, the Amendments provide further guidance on the accounting for share-based payment transactions among group entities. It states that the entity receiving the goods or services should recognise the transaction as an equity-settled share-based transaction only if:

- the awards granted are its own equity instruments; or
- it has no obligation to settle the transaction.

In all other circumstances, the entity should measure the transaction as a cash-settled share-based payment.

HKFRS 3 (Revised): Business Combinations/Improvements to HKFRS 2009 with amendments to HKFRS 3 (Revised)

The revised standard introduces a number of major changes including the following:

- acquisition-related transaction costs, other than share and debt issue costs, to be expensed as incurred;
- existing interest in the acquiree to be remeasured at fair value, with the gain or loss recognised in profit or loss, upon subsequent changes in ownership interests;
- non-controlling interest in the acquiree to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree;
- contingent consideration to be recognised at fair value at the acquisition date; and
- goodwill to be measured at the excess of the aggregate of the acquisition-date fair value of the acquirer’s interest in the acquiree and the amount of any non-controlling interest over the net of the acquisition-date amounts of identifiable assets acquired and the liabilities assumed from the acquisition.

The Improvements to HKFRS 2009 contain amendments to clarify the measurement of the fair value of an intangible asset acquired in a business combination and to permit the grouping of intangible assets as a single asset if each asset has similar useful economic life.

The Group amended its accounting policies in relation to business combinations in order to bring them in line with the requirements under HKFRS 3 (Revised). The new accounting policies are set out in the notes below. In accordance with the relevant transitional provisions in HKFRS 3 (Revised), the Group has applied these new policies prospectively to business combinations for which the acquisition date is on or after 1 January 2010.

HKAS 27 (Revised): Consolidated and Separate Financial Statements

The revised standard requires accounting for changes in ownership interests in a subsidiary, while maintaining control, to be recognised as an equity transaction. It also requires, when the group loses control of a subsidiary, any interest retained in the former subsidiary to be remeasured at fair value with the gain or loss recognised in profit or loss. This principle is also extended to a disposal of an associate through the consequential amendments to HKAS 28: Investments in Associates. The new accounting policies are set out in the notes below.

HKAS 27 (Revised) also requires that total comprehensive income is attributed to the equity holders of the Company and non-controlling interests on the basis of present ownership interest even if it results in the non-controlling interests having a deficit balance. This revised standard affects the Group's accounting policy for total comprehensive income attributable to the non-controlling interests. As the Group has applied the amendments prospectively, the previously reported results of the Group are not restated on the adoption of this revised standard.

The adoption of the new/revised standards did not have significant impact on the consolidated financial statements for the year ended 31 December 2010.

Basis of measurement

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

Future changes in HKFRS

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

Amendments to HKAS 32	*Classification of Rights Issues*[1]
Amendments to HKFRS 1 (Revised)	*Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HK(IFRIC) – Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
Amendments to HK(IFRIC) – Int 14	*Prepayments of a Minimum Funding Requirement*[3]
Improvements to HKFRSs 2010	*Improvements to HKFRSs 2010*[4]
Amendments to HKFRS 7	*Disclosures – Transfer of Financial Assets*[5]
Amendments to HKFRS 1 (Revised)	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[5]
Amendments to HKAS 12	*Deferred Tax: Recovery of Underlying Assets*[6]
HKFRS 9	*Financial Instruments*[7]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 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 consolidated 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 two reporting segments. No operating segments have been aggregated to form the following reporting segments.

- the e-Learning business segment which provides e-Learning programs and development of related products; and

- the e-Licensing business segment which 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 segment to another, including sharing of 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 2010 and 2009 is set out below.

Year ended 31 December 2010

	Continuing operations			Discontinued operations	
	e-Learning business *HK$'000*	e-Licensing business *HK$'000*	Sub-total *HK$'000*	Server-based technology *HK$'000*	Consolidated *HK$'000*
Segment revenue					
Sale to external customers	6,973	–	6,973	–	6,973
Segment results	353	(11,815)	(11,462)	–	(11,462)
Unallocated income			35	–	35
Unallocated expenses			(16,358)	–	(16,358)
Unallocated finance costs			(1,247)	–	(1,247)
Gain on disposal of subsidiaries			5	–	5
Loss before taxation			(29,027)	–	(29,027)
Taxation			(65)	–	(65)
Loss for the year			(29,092)	–	(29,092)
Assets and liabilities					
Segment assets	6,054	29,314	35,368	–	35,368
Due from jointly controlled entities	–	15,706	15,706	–	15,706
Unallocated assets					149,543
Consolidated total assets					200,617
Segment liabilities	3,227	471	3,698	–	3,698
Unallocated liabilities					44,549
Consolidated total liabilities					48,247
Other segment information					
Depreciation	88	–	88	–	88
Impairment loss of deposits paid	–	10,735	10,735	–	10,735
Employee share-based payment – unallocated	–	–	–	–	10,323
Capital expenditure	12	30	42	–	42

Year ended 31 December 2009

	Continuing operations			Discontinued operations	
	e-Learning business *HK$'000*	e-Licensing business *HK$'000*	Sub-total *HK$'000*	Server-based technology *HK$'000*	Consolidated *HK$'000*
Segment revenue					
Sale to external customers	4,150	–	4,150	172	4,322
Segment results	1,109	–	1,109	(29)	1,080
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 losses of jointly controlled entities			(69)	–	(69)
(Loss) Profit before taxation			(12,909)	4,674	(8,235)
Taxation			(224)	–	(224)
(Loss) Profit for the year			(13,133)	4,674	(8,459)
Assets and liabilities					
Segment assets	5,389	15,946	21,335	–	21,335
Due from jointly controlled entities	–	9,455	9,455	–	9,455
Unallocated assets					130,515
Consolidated total assets					161,305
Segment liabilities	2,903	48	2,951	–	2,951
Unallocated liabilities					43,706
Consolidated total liabilities					46,657
Other segment information					
Depreciation	119	–	119	–	119
Employee share-based payment – unallocated	–	–	–	–	6,571
Capital expenditure	15	–	15	–	15

(b) Geographic information

The Group's operations are principally located in Hong Kong and the PRC.

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

	The PRC	**Hong Kong**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
Year ended 31 December 2010			
Segment revenue			
Sale to external customers	**–**	**6,973**	**6,973**
At 31 December 2010			
Other segment information			
Non-current assets	**114,281**	**10,775**	**125,056**

	The PRC	Hong Kong	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2009			
Segment revenue			
Sale to external customers	–	4,322	4,322
At 31 December 2009			
Other segment information			
Non-current assets	108,000	10,851	118,851

(c) Information about major customers

No sales to a single customer of the Group accounted for over 10% of total revenue of the Group for the years ended 31 December 2009 and 2010, respectively.

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:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
e-Learning business		
– Subscription income	**5,448**	3,381
– Sale of learning products	**1,525**	628
– Commission income	**–**	141
	6,973	4,150
Discontinued operations		
Putonghua learning platform	**–**	172
Turnover and revenue	**6,973**	4,322

6. OTHER INCOME

	Group	
	2010	2009
	HK$'000	*HK$'000*
Interest income	**11**	26
Gain on disposal of subsidiaries	**5**	–
Sundry income	**24**	14
	40	40

7. FINANCE COSTS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Bank interest expenses	**–**	1
Interest on promissory notes	**–**	23
Interest on convertible bonds	**1,247**	923
	1,247	947

8. LOSS BEFORE TAXATION

This is stated after charging:

	Group 2010 *HK$'000*	Group 2009 *HK$'000*
Employee benefits expenses (including directors' remuneration)		
Salaries, allowances and benefits in kind	**4,621**	1,986
Contribution to defined contribution schemes	**129**	74
Employee share-based payment	**10,323**	6,571
	15,073	8,631
Auditor's remuneration	**380**	290
Cost of good sold	**580**	228
Cost of services rendered	**1,664**	536
Depreciation of property, plant and equipment	**88**	119
Bad debt written off	**11**	–
Exchange loss	**88**	–
Impairment loss of deposits paid	**10,735**	–
Operating lease payments – hire of equipment	**29**	–
Research and development costs	**292**	–

9. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 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 subsidiary incurred a loss for taxation purposes.

	Group 2010 *HK$'000*	Group 2009 *HK$'000*
Current year provision		
Hong Kong Profits Tax	**78**	241
Overprovision in prior year	**(1)**	–
Deferred taxation	**(12)**	(17)
Tax expense for the year	**65**	224
Attributable to:		
Continuing operations	**65**	224

Reconciliation of effective tax rate

	Group	
	2010	2009
	%	%
Applicable tax rate	**(16.7)**	(16.5)
Share of losses of jointly controlled entities	**–**	0.1
Non-deductible expenses	**16.4**	19.2
Non-taxable revenue	**–**	(0.1)
Unrecognised tax losses	**0.5**	–
Effective tax rate for the year	**0.2**	2.7

The applicable tax rate is the weighted average of tax rates prevailing in the territories in which the Group's entities operate.

10. (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:

	2010	2009
	HK$'000	*HK$'000*
For continuing and discontinued operations		
Loss attributable to equity holders of the Company	**(21,452)**	(8,767)
For continuing operations		
Loss attributable to equity holders of the Company	**(21,452)**	(13,441)
For discontinued operations		
Profit attributable to equity holders of the Company	**–**	4,674

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year	**2,081,852,766**	1,479,038,987

Diluted (loss) earnings per share for 2010 and 2009 is the same as basic (loss) earnings per share as the potential ordinary shares under the convertible bonds, share options and unlisted warrants have anti-dilutive effects on the basic (loss) earnings per share.

11. TRADE AND OTHER RECEIVABLES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Trade receivables from third parties	**2,709**	1,978
Deposits, prepayments and other receivables	**26,213**	9,696
	28,922	11,674

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$1,237,000 (2009: HK$1,650,000), 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 by overdue date that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Current	**1,472**	328
Less than 1 month past due	**483**	610
1 month to 3 months past due	**680**	598
Over 3 months past due	**74**	442
	1,237	1,650
	2,709	1,978

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 a third party of approximately HK$1,342,000 (2009: HK$3,034,000), which are unsecured, interest-free and have no fixed repayment term.

Included in deposits, prepayments and other receivables are prepayments to licensors of approximately HK$24,080,000 (2009: HK$6,177,532) for the operation of the e-Licensing business.

Because of the delay in commencing the e-Licensing business, the license agreements entered into in current year and prior years had expired and the licensing fee of HK$10,735,000 (2009: Nil) prepaid to these licensors was written off during the year.

12. OTHER PAYABLES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Deferred income	**2,270**	2,390
Accrued charges and other payables	**1,871**	669
	4,141	3,059

13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2010 includes a loss of HK$22,763,000 (2009: HK$12,664,000) which has been dealt with in the financial statements of the Company.

14. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the year (2009: Nil).

15. EVENTS AFTER THE REPORTING PERIOD

On 14 January 2011, Marvel Cosmos Limited ("Marvel Cosmos"), a wholly-owned subsidiary of the Company entered into an agreement with Mr. Chang Li Cheng (the "Vendor") to acquire 25% equity interest of Socle Limited ("Socle") and 25% of its obligations, indebtedness and liabilities due by Socle to the Vendor for a total consideration of US$3,810,300 (equivalent to approximately HK$29,720,340). The consideration will be settled as to US$2,000,000 by cash and balance of US$1,810,300 by ordinary shares. As at the date of this report, a deposit of US$500,000 was paid to the Vendor for the acquisition.

Socle and its subsidiaries are principally engaged in the licensing of the leading professional sports events and entertainment content mainly in the PRC.

Upon completion, Marvel Cosmos will be interested in 25% equity interest of Socle.

BUSINESS REVIEW

I. E-Licensing Business

During the year under review, the digital copyright management business of the Group has achieved significant breakthroughs.

The Group officially signed an exclusive cooperation agreement in December 2010 with OneStop China Limited ("OSC"), the joint venture established by Universal, Warner and Sony, in relation to obtaining the exclusive license for the provision of the music contents licensed by the top three record labels on the music platform of China Unicom. Up to 450,000 pieces of music content are retrieved from domestic and overseas music libraries.

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

The Group also obtained an exclusive licensing from the major record label, Avex in Asia Pacific in March 2010 for providing music content retrieved from its Chinese and Japanese music libraries on the music platform of China Unicom and the music website of Baidu.

In January 2011, the Group entered into an agreement to acquire 25% equity interest of Socle Limited and its subsidiaries ("Socle Group"), one of the leading distributors of professional sports licensed media content in China. Socle Group possesses diversified professional sporting events contents, including the Chinese Basketball Association, China Football Association Super League, Mission Hills Golf World Cup and FIFA Club World Cup, which captures over 50% of the market share of China's professional sports events licensing market with over 2,000 hours of events and special sports programs output every year. Socle Group built a sports TV broadcast platform that spans across the country and overseas regions.

II. E-Learning business

Building upon the Group's e-Learning platform and its close relationship with the school network in Hong Kong, the Group has evolved from an e-learning provider to a leading turnkey supplier to provide various e-learning platforms, joint school competitions, extra-curricular activities, various e-learning contents and resources, and the provision of the latest educational/green technology solutions.

The Hong Kong Government and the Macao Government both place high emphasis on education. In view of the buoyant economies condition, increasing financial resources have been diverted to nearly to all the secondary and primary schools.

During the reporting year, the Group has successfully clinched over 30 primary schools in the first batch of the Hong Kong Government funding education projects for provision of various language enhancement programs.

In addition to Hong Kong, the Group has also succeeded in replicating its business model to Macao. Other than providing e-Learning contents such as e-storybooks and Mathematics learning programs, the Group has been recently appointed by the Macao Education & Youth Affairs Bureau for three consecutive years to provide all primary and secondary school students in Macao with the Group's online reading platforms. The Group is actively working with schools in Macao to design other educational technology solutions which meet the needs of students and teachers there.

FINANCIAL REVIEW

RESULTS

The Group incurred a net loss attributable to shareholders ofapproximately HK$21,452,000 for the year ended 31 December 2010 compared with that of approximately HK$8,767,000 last year. Revenue from continuing operations for the year amounted to approximately HK$6,973,000 (2009: HK$4,150,000), representing an increase of approximately 68% compared to last year. The increase in turnover was mainly contributed by the increase in sales of e-Learning business, driven by the successful launch of the e-Learning English enhancement programs in the fourth quarter of this year.

Administrative expenses for the year ended 31 December 2010 amounted to approximately HK$32,186,000 (2009: HK$15,044,000), representing an increase of approximately HK$17,142,000 as comparing with last year. The increase was mainly attributed to (i) the share based payment arising from granting of share options and (ii) the impairment loss of deposits paid for of the music contents in relation to the e-Licensing business.

Liquidity and financial resources

As at 31 December 2010, the Group had current assets of approximately HK$75,561,000 (2009: HK$42,454,000) and current liabilities of approximately HK$26,069,000 (2009: HK$3,746,000). The current assets were comprised mainly of cash and bank balances of HK$44,645,000 (2009: HK$29,052,000) and trade and other receivables of HK$28,922,000 (2009: HK$11,674,000). The Group's current liabilities were comprised mainly of other payables of approximately HK$4,141,000 (2009: HK$3,059,000) and earn-out payable of HK$18,000,000 (2009: nil). The Group had no bank borrowings at 31 December 2010 (2009: Nil). As at 31 December 2010, the Group had a current ratio of approximately 2.9 as compared to that of 11.3 at 31 December 2009.

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 minimize exposure to foreign exchange risks. As at 31 December 2010, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company does not have any reserves available for cash distribution and/or distribution in specie. In addition, the Company's share premium account had a balance of approximately HK$149,585,000 as at 31 December 2010 (2009: HK$100,826,000).

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 2010, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2010, the Group had 40 (2009: 23) full-time employees. Employee costs for the year 2010, excluding directors' emoluments, amounted to approximately HK$11,414,000 (2009: HK$5,772,000). 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

On 10 February 2010, the Company entered into a loan agreement (the "Loan Agreement") with Far Glory Limited ("Far Glory"), a non-wholly owned subsidiary of the Company to grant a revolving facility of up to a maximum amount of HK$9.5 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Loan Agreement for financing the business development and working capital requirements of the Far Glory Group.

On 23 July 2010, the Company entered into a supplemental agreement (the "Supplemental Agreement") with Far Glory, pursuant to which the Company agreed to increase the revolving loan facility under the Loan Agreement up to a maximum amount of HK$40 million to Far Glory at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Supplemental Agreement.

The foresaid continuing connected transaction has been reviewed by independent non-executive directors, The independent non-executive directors confirmed that the continuing connected transaction set out in above was entered into:

1. in the ordinary and usual course of business of the Company;

2 either on normal commercial terms or on terms no less favorable to the Company than terms available to or from independent third parties; and

3 in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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 2010 except that no nomination committee of the Board is established.

The Board does not establish a nomination committee in consideration of the size of the Group. The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy on or as an additional member of the Board. Suitable candidates will be proposed to the Board for consideration, and 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 2010.

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 2010 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 2010 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
Hsu Tung Sheng
Chairman

Hong Kong, 29 March 2011

As at the date of this announcement, the executive Directors are Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Pang Hong Tao, and Ms. Au Shui Ming, Anna. 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.