



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 RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2011

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

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This announcement, for which the directors (the “Directors”) of China Digital Licensing (Group) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

FIRST QUARTERLY RESULTS (UNAUDITED)

The board (the “Board”) of directors (the “Directors”) is pleased to present an unaudited consolidated financial statements of China Digital Licensing (Group) Limited (the “Company”) and its subsidiaries (together the “Group”) for the three months ended 31 March 2011 together with the comparative figures for the corresponding period in 2010, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2011

		Three Months ended 31 March	
		2011	2010
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	3	2,544	1,262
Cost of services rendered and cost of good sold		<u>(1,109)</u>	<u>(279)</u>
Gross profit		1,435	983
Administrative and other expenses		(3,221)	(2,180)
Finance costs		<u>(298)</u>	<u>(300)</u>
Loss before taxation		(2,084)	(1,497)
Income tax expense	4	<u>(25)</u>	<u>(54)</u>
Loss for the period		<u>(2,109)</u>	<u>(1,551)</u>
Other comprehensive income for the period			
Currency translation differences		<u>—</u>	<u>—</u>
Total comprehensive loss for the period		<u>(2,109)</u>	<u>(1,551)</u>
Loss attributable to:			
Equity holders of the Company		(1,937)	(1,163)
Minority interests		<u>(172)</u>	<u>(388)</u>
		<u>(2,109)</u>	<u>(1,551)</u>
Total comprehensive loss attributable to:			
Equity holders of the Company		(1,937)	(1,163)
Minority interests		<u>(172)</u>	<u>(388)</u>
		<u>(2,109)</u>	<u>(1,551)</u>
Dividends	5	<u>—</u>	<u>—</u>
Loss per share	6		
Basic		<u>HK(0.09) cents</u>	<u>HK(0.06) cents</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2011

	Share capital	Share premium	Special reserve	Warrant reserve	Convertible bonds 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	HK\$'000
			(Note a)								
2010											
At 1 January 2010	97,029	100,826	10,084	-	6,260	-	7,645	(120,401)	101,443	13,205	114,648
Exercise of share options	6,550	22,278	-	-	-	-	(5,717)	-	23,111	-	23,111
Loss for the period	-	-	-	-	-	-	-	(1,163)	(1,163)	(388)	(1,551)
At 31 March 2010	<u>103,579</u>	<u>123,104</u>	<u>10,084</u>	<u>-</u>	<u>6,260</u>	<u>-</u>	<u>1,928</u>	<u>(121,564)</u>	<u>123,391</u>	<u>12,817</u>	<u>136,208</u>
2011											
At 1 January 2011	109,754	149,585	10,084	291	6,260	86	12,251	(141,853)	146,458	5,912	152,370
Loss for the period	-	-	-	-	-	-	-	(1,937)	(1,937)	(172)	(2,109)
At 31 March 2011	<u>109,754</u>	<u>149,585</u>	<u>10,084</u>	<u>291</u>	<u>6,260</u>	<u>86</u>	<u>12,251</u>	<u>(143,790)</u>	<u>144,521</u>	<u>5,740</u>	<u>150,261</u>

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

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 2010 financial statements.

3. TURNOVER

Turnover comprises revenue from the e-learning business amounted to approximately HK\$2,544,000 (2010: approximately HK\$1,262,000).

4. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

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

5. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the three months ended 31 March 2011 (2010: Nil).

6. LOSS PER SHARE

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

	Three months ended	
	31 March	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss attributable to equity holders of the Company	<u>(1,937)</u>	<u>(1,163)</u>
	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the period	<u>2,195,085,643</u>	<u>1,965,541,199</u>

Diluted loss per share for 2011 and 2010 is the same as basic loss per share as the potential ordinary shares under the convertible bonds and share options have anti-dilutive effects on the basic loss per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Review

I. e-Licensing Business

During the period under review, the Group formally launched the music contents licensed by OneStop China Limited, 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. Over 20,000 pieces of the latest and the popular licensed songs have been uploaded by the Group on the music platform. The Group is in the process of completion of uploading the balance of 430,000 remaining pieces.

The Group is working closely with China Unicom to provide music oriented value-added services under the music platform of China Unicom. Also, the Group is actively promoting jointly with China Unicom in various provinces for the value-added contents and membership of such music platform. The revenue is expected to grow substantially at an accelerating pace in the coming quarters.

Meanwhile, the Group has made substantial progress in the negotiation with other major telecommunication operators in the PRC on the provision of copyright protected entertainment contents to the broadcasting channels of such telecommunication operators.

With the growing emphasis on the protection of music copyrights and promotion of licensed copyright contents on the Internet, the Group has been active in negotiating with a major service provider of the Internet for the provision of the e-License digital copyrights management solution in the Internet. During the period, the Group has achieved major breakthroughs in such area.

In addition, the Group has been exploring other business opportunities in music industry. The Group is striving to provide full label services, including music management and development, to become a complete one-stop service company for artists and labels.

II. e-Learning Business

The Group has started providing a full range of turnkey services to over 30 primary schools on the language enhancement projects in this quarter. The Group has also started to prepare for the second batch of the government funding projects of additional 30 primary schools, as well as 100 secondary schools on English Enhancement Scheme from the Hong Kong Education Bureau. In addition, the Group submitted proposals to several schools in Macao on various e-learning initiatives. These initiatives will be fully funded by the Education Development Fund from the Macao Education & Youth Affairs Bureau. Last year, a total funding of \$400 million was granted to schools in Macao.

The Group has also started the design and development of a few other mobile learning applications for students/schools in Hong Kong and Macao, and its innovative Grammar Monster App for the iPad/iPhone interface has also been launched.

With the above-mentioned progress, the management is confident that the Group will achieve meaningful profitability in the coming quarters.

Financial Review

For the three months ended 31 March 2011, the Group's turnover, which represents revenue from its e-Learning business increased from approximately HK\$1,262,000 of previous corresponding period to approximately HK\$2,544,000. Such increase was in line with the successful launch of the e-Learning English enhancement programs.

The Group reported a net loss attributable to equity holders of approximately HK\$1,937,000 for the three months ended 31 March 2011, compared to a net loss of approximately HK\$1,163,000 in the corresponding period of last year.

Administrative expenses for the three months ended 31 March 2011 amounted to approximately HK\$3,221,000 (2010: approximately HK\$2,180,000), representing an increase of approximately 47% as comparing with the same period last year. The increase was mainly attributed to the growth of e-Learning business.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

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 announcement, a deposit of US\$500,000 was paid to the Vendor for the acquisition.

Socle and its subsidiaries are principally engaged in the provision 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.

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

As at 31 March 2011, 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:

(i) Interest in Shares

Name of director	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Hsu Tung Sheng	Beneficial	19,000,000 (L)	0.87%
Mr. Hsu Tung Chi (Note 1)	Beneficial Interest of controlled corporation	19,000,000 (L) 41,070,000 (L)	0.87% 1.87%
Daily Technology Company Limited (Note 1)	Beneficial	41,070,000 (L)	1.87%
Mr. Pang Hong Tao	Beneficial	42,800,000 (L)	1.95%
Ms. Au Shui Ming, Anna	Beneficial	54,500,000 (L)	2.48%

(L) denotes long position

Note:

- Mr. Hsu Tung Chi ("Mr. Hsu") beneficially owns 19,000,000 shares. Daily Technology Company Limited ("Daily Technology") is beneficially owned as to 98% by Mr. Hsu. Daily Technology beneficially owns 41,070,000 shares. Under the SFO, Mr. Hsu is deemed to be interested in 41,070,000 shares.

(ii) Interest in share options

Name of director	Nature of interests	Number of share options granted	Approximate percentage of interests
Mr. Hsu Tung Sheng	Beneficial	15,000,000 (L)	0.68%
Mr. Hsu Tung Chi	Beneficial	15,000,000 (L)	0.68%
Mr. Pang Hong Tao	Beneficial	8,000,000 (L)	0.36%
Ms. Au Shui Ming, Anna	Beneficial	8,000,000 (L)	0.36%

(L) denotes long position

(iii) Interest in underlying shares

Name of shareholder	Nature of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Mr. Hsu Tung Chi	Beneficial	Convertible bonds (Note 1)	122,222,222 (L)	5.57%
	Interest of controlled corporation	Convertible bonds (Note 1)	286,202,127 (L)	13.04%
Daily Technology Company Limited	Beneficial	Convertible bonds (Note 1)	286,202,127 (L)	13.04%

(L) denotes long position

Note:

1. According to the sale and purchase agreement entered into among Cheer Plan Limited (“Cheer Plan”), a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi (“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. 100,000,000 convertible bonds were redeemed by the Company. As at 31 March 2011, there were 122,222,222 convertible bonds outstanding.

Daily Technology Company Limited (“Daily Technology”) is beneficially owned as to 98% by Mr. Hsu. Pursuant to the agreement entered into between Cheer Plan and Daily Technology on 8 October 2009, the Company will allot 286,202,127 convertible bonds to Daily Technology. Under the SFO, Mr. Hsu is deemed to be interested in 286,202,127 convertible bonds.

Save as disclosed above, as at 31 March 2011, 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

The Company adopted a share option scheme (the “Scheme”) on 24 January 2003 pursuant to a written resolution of the Company. Details of the movements in the number of share options during the year under the Scheme are as follows:

Categories of grantees	As at 1 January 2011	Exercised during the period	Outstanding at 31 March 2011	Exercise price HK\$	Grant date	Exercisable period
Directors						
Mr. Hsu Tung Sheng	15,000,000	–	15,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Mr. Hsu Tung Chi	15,000,000	–	15,000,000	0.475	16/12/2010	16/12/2010- 15/12/2013
Mr. Pang Hong Tao	8,000,000	–	8,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Ms. Au Shui Ming, Anna	8,000,000	–	8,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Employees	48,000,000	–	48,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
	4,000,000	–	4,000,000	0.475	16/12/2010	16/12/2010- 15/12/2013
	<u>98,000,000</u>	<u>–</u>	<u>98,000,000</u>			

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 March 2011, 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:

(i) Interest in Shares

Name of Substantial Shareholder	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Lau Kim Hung, Jack (Note 1)	Interest of controlled corporations	497,698,238 (L)	22.67%
	Deemed	4,500,000 (L)	0.21%
Ms. Chan Yiu Kan Katie (Note 1)	Beneficial	4,500,000 (L)	0.21%
	Deemed	497,698,238 (L)	22.67%
Manciple Enterprises Limited (Note 1)	Beneficial	482,698,238 (L)	21.99%

Name of Substantial Shareholder	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Eagle Strategy Limited (Note 1)	Beneficial	15,000,000 (L)	0.68%
Decade Talent Limited (Note 2)	Beneficial	55,000,000 (L)	2.51%
Mr. Wan Wah Chung (Note 2)	Beneficial	2,500,000 (L)	0.11%
	Interest of controlled corporation	55,000,000 (L)	2.51%
	Deemed	550,000 (L)	0.02%
Ms. Yueng Wing Suen (Note 2)	Beneficial	550,000 (L)	0.02%
	Deemed	57,500,000 (L)	2.62%

(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 482,698,238 shares. Under the SFO, Mr. Lau is deemed to be interested in 482,698,238 shares. Mr. Lau is also deemed to be interested in 15,000,000 shares owned by Eagle Strategy Limited, which is wholly and beneficially owned by Mr. Lau.

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

2. Decade Talent Limited (“Decade Talent”) is wholly and beneficially owned by Mr. Wan Wah Chung (“Mr. Wan”). Decade Talent beneficially owns 55,000,000 shares. Under the SFO, Mr. Wan is deemed to be interested in 55,000,000 shares. Ms. Yueng Wing Suen (“Ms. Yueng”), the wife of Mr. Wan, is personally interested in 550,000 shares. Being spouses, Mr. Wan and Ms. Yueng are deemed to be interested in their respective shareholding in the Company under the SFO.

(ii) Interest in underlying shares

Name of shareholder	Nature of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Decade Talent Limited	Beneficial	Warrants (Note 1)	165,000,000 (L)	7.52%
Mr. Wan Wah Chung	Interest of controlled corporation	Warrants (Note 1)	165,000,000 (L)	7.52%
Ms. Yueng Wing Suen	Deemed	Warrants (Note 1)	165,000,000 (L)	7.52%

(L) denotes long position

Note:

1. Pursuant to the conditional warrant subscription agreement dated 10 August 2010 and entered into among the Company, Decade Talent and Mr. Wan in relation to the subscription of 165,000,000 warrants by Decade Talent. Under the SFO, Mr. Wan is deemed to be interested in 165,000,000 warrants by virtue of his being the ultimate beneficial owner of Decade Talent.

Ms. Yeung is also deemed to be interested in the aforesaid warrants by virtue of her being the spouse of Mr. Wan.

Save as disclosed above, as at 31 March 2011, 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 the business of the Group.

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

During the period ended 31 March 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 period ended 31 March 2011.

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 period ended 31 March 2011 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.

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 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 quarterly reports. 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 first quarterly results for the three months ended 31 March 2011 has been reviewed by the audit committee, 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.

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.

By order of the Board of
China Digital Licensing (Group) Limited
Hsu Tung Sheng
Chairman

Hong Kong, 13 May 2011

This announcement will remain on 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.