

THIRD QUARTERLY REPORT 2008



China Digital Licensing (Group) Limited
中國數碼版權(集團)有限公司

(formerly known as "Shen Nong China (Group) Limited")
(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)



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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 three months and nine months ended 30 September 2008 together with the comparative figures for the corresponding periods in 2007 as follows:-

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2008

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	3				
Continuing operations		997	1,324	5,551	5,101
Discontinued operations		255	-	1,216	-
		1,252	1,324	6,767	5,101
Cost of sales		(599)	(504)	(5,505)	(2,345)
Gross profit		653	820	1,262	2,756
Other revenues and gains		24	-	999	338
Research and development expenses		(276)	(250)	(750)	(875)
Selling and distribution expenses		(218)	(907)	(851)	(884)
Administrative expenses		(3,984)	(2,953)	(9,728)	(6,493)
Other expenses	4	(1,340)	(120)	(13,138)	(360)
Finance costs		(200)	-	(393)	-
Loss from operating activities		(5,341)	(3,410)	(22,599)	(5,518)
Loss on disposal of subsidiaries		(35,118)	-	(30,562)	-
Share of losses from associates		(10)	-	(10)	-
Loss before taxation					
Continuing operations		(3,107)	(3,410)	(9,018)	(5,518)
Discontinued operations		(37,362)	-	(44,153)	-
		(40,469)	(3,410)	(53,171)	(5,518)
Taxation	5				
Continuing operations		-	-	-	-
Discontinued operations		-	-	3,654	-
		-	-	3,654	-
Loss for the period					
Continuing operations		(3,107)	(3,410)	(9,018)	(5,518)
Discontinued operations		(37,362)	-	(40,499)	-
		(40,469)	(3,410)	(49,517)	(5,518)
Attributable to:					
Equity holders of the Company		(39,339)	(2,287)	(45,210)	(4,280)
Minority interests		(1,130)	(1,123)	(4,307)	(1,238)
		(40,469)	(3,410)	(49,517)	(5,518)
Loss per share - Basic	7				
From continuing and discontinued operations		(2.96 cents)	(0.31 cents)	(3.40 cents)	(0.64 cents)
From continuing operations		(0.23 cents)	(0.31 cents)	(0.68 cents)	(0.64 cents)



UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2008

	Share capital	Share premium	Special reserve	Warrant subscription reserve	Convertible notes reserve	Employee share-based			Subtotal	Minority interests	Total
						Exchange reserve	compensation reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)								
2007											
At 1 January 2007	29,498	22,821	10,084	1,469	-	(24)	2,314	(43,881)	22,281	-	22,281
Exercise of share options	150	837	-	-	-	-	(357)	-	630	-	630
Exercise of warrants	1,000	2,349	-	(249)	-	-	-	-	3,100	-	3,100
Issue of consideration shares	6,788	10,181	-	-	-	-	-	-	16,969	-	16,969
Share issue expenses	-	(744)	-	-	-	-	-	-	(744)	-	(744)
Exchange differences arising from consolidation	-	-	-	-	-	8	-	-	8	-	8
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	12,998	12,998
Loss for the period	-	-	-	-	-	-	-	(4,280)	(4,280)	(1,238)	(5,518)
At 30 September 2007	37,436	35,444	10,084	1,220	-	(16)	1,957	(48,161)	37,964	11,760	49,724
2008											
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

Notes:

- (a) The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. 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 information technology businesses. It is engaged in the development and marketing of patented server based technology for its real time on-line communication software platform for the Chinese language and the provision of software related services. The Group is also 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 2007.



3. TURNOVER

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
E-learning business	158	–	171	–
Software business				
Sales of licensed software	149	646	3,002	3,250
Software maintenance	339	218	980	585
Software rental and subscription income	120	65	360	225
Website development	–	250	358	579
Putonghua learning platform	231	145	680	462
	839	1,324	5,380	5,101
Agriculture-related business				
Sales of organic fertilizers	255	–	887	–
Provision of water supply services	–	–	329	–
	255	–	1,216	–
	1,252	1,324	6,767	5,101



4. OTHER EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
	Impairment of intangible assets	-	-	1,432
Property, plant and equipment written off	-	-	1,323	-
Inventories written off	-	-	1,216	-
Impairment allowance on trade and other receivables	-	-	4,019	-
Legal and professional expenses	770	120	3,952	360
Employee share-based payment	570	-	1,196	-
	1,340	120	13,138	360

5. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have any assessable income 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 30 September		Nine months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
	Current year provision			
Hong Kong profits tax	-	-	-	-
PRC enterprise income tax	-	-	-	-
Overprovision in prior year	-	-	3,654	-
Tax credit for the period	-	-	3,654	-



MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period, the Group re-aligned its business focus on the E-Learning business and the investment in digital licensing and copyright management business. In addition to the earlier disposal of the water supply business, the Group has disposed the fertilizer business during the period.

E-Learning Business

The E-Learning business has achieved significant steps forward during the period.

In addition to the co-operation agreement with China Network Communications Group Corporation in Jiangsu, the PRC (中國網絡通信集團公司), during the period, the Group entered into a service agreement with the Education and Youth Affairs Bureau in Macao through which the Group will provide its on-line education programs to all the primary and secondary schools in Macao. On the other hand, the Group will hold a nationwide English storytelling contest in the PRC with Cambridge University Press and other partners in the PRC. Such contest will serve as a series of promotional activities through which the E-Learning business will be further developed in the PRC.

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



Investment in Digital Licensing and Copyright Management Business

During 2008, the Group acquired 20.26% shareholding interest in a digital licensing business which is principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

Recently, the PRC Government has placed increasing emphasis on copyright protection and has imposed stringent measures against anti-privacy. The relevant Government authorities in various provinces and major cities have filed cases against KTVs on a large scale in the PRC which have infringed copyrights of broadcasted songs.

Such anti-privacy policies imposed by the PRC Government have accelerated the licensing enforcements in the PRC and thus, have speeded up the development of the digital licensing and copyright management business in the PRC. The Board believes that the investment in such business by the Group will serve to be a significant income stream to the Group in medium to long terms.

Software Business

The turnover of software business for the three months ended 30 September 2008 represents a decrease of approximately 37% as compared to the previous corresponding period which was mainly attributable to the decrease on sale of licensed software during the period.



Prospects

Despite the Group has suffered major losses mainly as a result of one-off loss arising from the disposal of its agriculture related businesses, capitalizing on the increasing emphasis on anti-privacy and education in the PRC, the E-Learning business and investment in the digital licensing and copyright management business have developed a platform for profitability of the Group in medium to long terms.

FINANCIAL REVIEW

For the nine months ended 30 September 2008, the Group recorded a turnover of approximately HK\$6,767,000, representing an increase of 32.7% compared to the same period last year.

The Group reported a gross profit margin of 18.6% compared with 54% for the corresponding period in 2007. The decrease in gross profit margin was mainly attributable to the agriculture-related business which contributed low profit margin.

During the period, the Group reported a net loss attributable to equity holders of the Company of approximately HK\$45,210,000, compared to a net loss of approximately HK\$4,280,000 in the previous corresponding period. The loss was mainly attributed to the one-off loss on disposal of the organic fertilizer business of approximately HK\$35,118,000. Administrative expenses increased by 49.8% to HK\$9,728,000 for the nine months ended 30 September 2008. The increase was mainly due to the inclusion of the operating expenses of Silky Sky Group and Proud Dragon Group in the Group upon completion of the acquisition in May 2007 and February 2008 respectively. Other expenses for the nine-month period increased to approximately HK\$13,138,000 from approximately HK\$360,000 for the same period last year. Such increase was mainly attributable to (i) the increase in legal and professional expenses associated with the acquisition and disposal of subsidiaries; (ii) impairment allowances on intangible assets and doubtful debts; (iii) the written-off of inventories; and (iv) the share-based payment arising from granting of share options.



MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

- (a) On 6 February 2008, Rise Assets Limited (“Rise Assets”), a wholly-owned subsidiary of the Company completed the acquisition of 100% equity interest in Proud Dragon Limited with a total consideration of HK\$47,600,000. The Proud Dragon Group is principally engaged in the provision of water supply in the rural areas of Anhui, the PRC.

Details of the acquisition were set out in the circular of the Company dated 18 January 2008.

- (b) On 14 April 2008, Cheer Plan Limited (“Cheer Plan”), a wholly-owned subsidiary of the Company entered into a conditional agreement with Far Glory Limited (“Far Glory”) in relation to the subscription of 8.26% of the entire issued share capital of Far Glory for a total consideration of HK\$20,250,000 and such subscription was completed on 21 April 2008.

Following the completion of the above subscription, Cheer Plan entered into a conditional agreement with Mr. Hsu Tung Chi (the “Vendor”) on 5 May 2008 in relation to the acquisition of 12% equity interest held by the Vendor in Far Glory for a maximum total consideration of HK\$45,000,000. Upon the completion of the acquisition on 20 June 2008, Cheer Plan holds 20.26% equity interest in Far Glory.

Far Glory and its subsidiaries are principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

Details of the subscription were set out the circular of the Company dated 5 May 2008, while the details of the acquisition were set out in the circular dated 30 May 2008.



- (c) On 21 April 2008, Rise Assets entered into a conditional Sales and Purchase Agreement (the "Agreement") with Mr. Lao Kuai Hong ("the Purchaser"), in relation to the disposal of the 100% equity interest in Proud Dragon Group held by Rise Assets for a total consideration of HK\$50,000,000. The disposal transaction was completed on 23 May 2008.

Details of the disposal were set out in the circular of the Company dated 5 May 2008.

- (d) On 2 June 2008, Wonder Link Limited, a wholly-owned subsidiary of the Company entered into the conditional agreement with Smart Great International Limited in relation to the acquisition of 51% equity interest in Start Bright Limited ("Start Bright") for a maximum total consideration of HK\$20,400,000 and such acquisition was completed on 24 June 2008.

Start Bright and its subsidiaries are 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.

Details of the acquisition were set out in the circular of the Company dated 23 June 2008.

- (e) On 7 July 2008, Rise Assets entered into the agreement to dispose of its 100% equity interest in Silky Sky Investments Limited ("Silky Sky") for a total consideration of HK\$15,000,000. Such disposal was completed on 25 September 2008.

Details of the disposal were set out in the circular of the Company dated 29 August 2008.



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

As at 30 September 2008, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows.

Long positions in shares

Name of director	Nature of interest	Number of shares held	Approximate percentage of issued share capital of the Company
Mr. Pang Hong Tao	Beneficial	10,500,000	0.79%
Mr. Ma She Shing, Albert	Beneficial	870,000	0.07%
Mr. Mo Wai Ming, Lawrence	Beneficial	21,385,920	1.61%
Ms. Au Shui Ming, Anna	Beneficial	22,500,000	1.69%

Save as disclosed above, as at 30 September 2008, 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 2008	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30 September 2008		Exercise price HK\$	Grant date	Exercisable period
					Number of options	Weighted average price			
Directors									
Mr. Pang Hong Tao	-	6,300,000	-	-	6,300,000	0.151	21/12/2007	18/1/2008 - 20/12/2017	
	-	7,000,000	-	-	7,000,000	0.101	28/8/2008	16/9/2008 - 27/8/2018	
Ms. Au Shui Ming, Anna	-	6,000,000	-	-	6,000,000	0.151	21/12/2007	18/1/2008 - 20/12/2017	
	-	7,000,000	-	-	7,000,000	0.101	28/8/2008	16/9/2008 - 27/8/2018	
Mr. Ma She Shing, Albert	-	10,000,000	-	-	10,000,000	0.101	28/8/2008	16/9/2008 - 27/8/2018	
Employees									
	-	36,300,000	-	(36,300,000)	-	0.151	21/12/2007	18/1/2008 - 20/12/2017	
	-	31,000,000	-	-	31,000,000	0.101	28/8/2008	16/9/2008 - 27/8/2018	
	-	103,600,000	-	(36,300,000)	67,300,000				



SUBSTANTIAL SHAREHOLDERS

Interests of substantial shareholders

So far as is known to the directors, as at 30 September 2008, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Nature of interest	Number of shares held	Approximate percentage of issued share capital of the Company
Mr. Lau Kim Hung, Jack (Note 1)	Interest of controlled corporation	299,478,238(L)	22.51%
Ms. Chan Yiu Kan Katie (Note 1)	Deemed	299,478,238(L)	22.51%
Manciple Enterprises Limited (Note 1)	Beneficial	299,478,238(L)	22.51%
Ms. Wong Chau Wan, Sanny (Note 2)	Beneficial	1,210,000(L)	9.56%
	Deemed	125,944,400(L)	
Mr. Wong Ming Kerry (Note 2)	Beneficial	11,474,400(L)	9.56%
	Interest of controlled corporation	114,470,000(L)	
	Deemed	1,210,000(L)	
Digital Epoch Profits Limited (Note 2)	Beneficial	114,470,000(L)	8.60%
Mr. Hsu Tung Chi (Note 3)	Beneficial	222,222,222(L)	16.70%
Ms. Chuang Meng Hua (Note 3)	Deemed	222,222,222(L)	16.70%

(L) denotes long position



Notes:

1. Manciple Enterprises Limited ("**Manciple**") is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("**Mr. Lau**"). Manciple beneficially owns 299,478,238 shares. Under the SFO, Mr. Lau is deemed to be interested in 299,478,238 shares. Ms. Chan Yiu Kan Katie, the wife of Mr. Lau, is also deemed to be interested in 299,478,238 shares.
2. Digital Epoch Profits Limited ("**Digital Epoch**") is wholly and beneficially owned by Mr. Wong Ming Kerry ("**Mr. Wong**"). Digital Epoch beneficially owns 114,470,000 shares. Under the SFO, Mr. Wong is deemed to be interested in the said 114,470,000 shares.

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

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

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

Save as disclosed above, as at 30 September 2008, 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 2008, 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 5.68 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 2008.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

During the nine months ended 30 September 2008, 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 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

By Order of the Board

Pang Hong Tao

Chairman

Hong Kong, 12 November 2008