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 Report 2009

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This report, for which the directors of China Digital Licensing (Group) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to China Digital Licensing (Group) Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Pang Hong Tao *(Chariman)*
Hsu Tung Sheng *(Chief Executive Officer)*
(Appointed on 3 June 2009)
Au Shui Ming, Anna
Mo Wai Ming, Lawrence (Resigned on
19 January 2009)

Non-executive Director

Ma She Shing, Albert

Independent Non-executive Directors

Kwok Chi Sun, Vincent
Lee Kun Hung
Wong Tak Shing (Appointed on 15 December 2009)
Hsu William Shiu Foo (Passed away on
20 November 2009)

AUDIT COMMITTEE

Kwok Chi Sun, Vincent
Lee Kun Hung
Wong Tak Shing (Appointed on 15 December 2009)
Hsu William Shiu Foo (Passed away on
20 November 2009)

REMUNERATION COMMITTEE

Kwok Chi Sun, Vincent
Au Shui Ming, Anna
Lee Kun Hung

COMPANY SECRETARY

Au Shui Ming, Anna

COMPLIANCE OFFICER

Au Shui Ming, Anna

AUTHORISED REPRESENTATIVES

Pang Hong Tao
Au Shui Ming, Anna

AUDITOR

Mazars CPA Limited
Certified Public Accountants

REGISTERED OFFICE

Caledonian Bank & Trust Limited
Caledonian House
P.O. Box 1043
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1601, Ruttonjee House
Ruttonjee Centre
11 Duddell Street, Central
Hong Kong

SHARE REGISTRAR

Standard Registrars Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

WEBSITE ADDRESS

www.chinadigitallic.com

STOCK CODE

8175

FINANCIAL HIGHLIGHTS

	For the year ended 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	4,472	6,622	21,238	10,044	**4,150**
Total comprehensive (loss) income attributable to:					
Equity holders of the Company	(4,913)	(6,273)	(2,470)	(66,159)	**(8,767)**
Minority interests	–	–	3,176	(4,246)	**308**
	(4,913)	(6,273)	706	(70,405)	**(8,459)**

ASSETS AND LIABILITIES

	As at 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	4,394	27,565	135,776	101,184	**161,305**
Total liabilities	(3,643)	(5,284)	(18,101)	(61,195)	**(46,657)**
Minority interests	–	–	(18,019)	(672)	**(13,205)**
Net assets	751	22,281	99,656	39,317	**101,443**

Note:

The Company was incorporated in the Cayman Islands on 10 October 2002 and became the holding company of the Group on 15 January 2003 as a result of the Group Reorganisation.

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), we hereby present the Annual Report of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2009.

The digital licensing and copyright management business became a 51% subsidiary of the Group during the year. After years of negotiations, collaboration arrangements with the Government authorities and major players in the industries were finalised during the year. The ground works for co-operations to create an unprecedented digital copyright management industry in the People Republic of China (the "PRC") were laid down.

OPERATION REVIEW

I. Digital Licensing and Copyright Management Business

A. *Government/Industry*

In April 2009, the Group has entered into a memorandum of understanding with China Audio and Video Copyright Association ("CAVCA"), the only audio/video copyrights management organisation approved by the National Copyright Administration of the PRC (國家版權局), according to which CAVCA will co-operate with the Group to provide digital copyright management solution in the wireless network territory. On 25 October, 2009, at the China International Copyright Fair in Beijing, CAVCA formally announced such technology partnership with the Group.

B. *Telecommunication*

A tripartite agreement was reached among CAVCA, a major telecommunication operator in the PRC and the Group for the provision of e-License digital copyrights management system. The operation is expected to commence in the coming quarter of 2010.

C. *The Internet*

Through the partnership with CAVCA, the Group has reached agreement with the largest audio/video entertainment on-line portal in the PRC for the provision of e-License digital copyrights management system and the development of digital Japanese audio/video entertainment contents (including music, animation, comic, etc) platform on such portal.

II. Digital Contents

The Group has obtained authorisations from two major record labels, avex and Warner/Chappell, for the provision of licensed audio entertainment contents. The Group has entered into agreements with China Unicom for the provision of such licensed contents.

The Group is also the sole agent of a Japanese popular multi-media drama series "Revolution station 5 +25" (「革命station 5+25」) in the PRC, Hong Kong, Taiwan, Macao and is in final negotiation with China Mobile Multimedia Broadcasting, a wholly owned subsidiary of the State Administration of Radio, Film and Television (廣電總局) on broadcasting of such drama series on the mobile network with CMMB specification of a major telecommunication operator in the PRC.

III. E-Learning business

The E-Learning business has achieved significant steps forward in 2009.

The Hong Kong Government, in recent years, has placed high emphasis on education particularly the language proficiency and on-line education. The Group is actively working with primary schools in Hong Kong to secure funding from the Hong Kong Government on language enhancement and E-Learning resources projects. With the Group serving over 400 primary and secondary schools in Hong Kong of over 40% penetration rate and the business partnership with Cambridge University Press, the Group is well-positioned to capture such business opportunity and hence, the business will be further expanded.

The Group has successfully penetrated into 100% of the government-owned/aided primary and secondary schools in Macao to provide its interactive English and Portuguese learning platform commissioned by the Macao Education and Youth Bureau.

IV. Prospects

To capitalize on the aforesaid developments of the digital licensing and copyright management and content businesses, the Group has deployed all the necessary resources on research and development, system localization and customization to further enter into in-car navigation system and other digital media.

The Group will provide licensed/invested audio and video entertainment contents to the in-car navigation system installed in the high-ended brands of Japanese automakers using e-License digital copyrights management system for allocation of copyrights income and will subsequently extend to other high-ended brands. The Group will also provide e-License digital copyrights management system and licensed/invested contents for Background Music (BGM), Internet bar and Karaoke (Web-based) via fixed line and broadband network.

In addition, the Group will build up the necessary profile and expertise to expand the business into the PRC and at the same time, the Group will explore business opportunities to develop on-line digital education platform in the PRC through its existing networks and relationships.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to all members of the Board and staff for their dedication and contribution to the Group. I would also like to extend my warmest appreciation to our shareholders and business partners for their continuous support.

Pang Hong Tao
Chairman

Hong Kong, 29 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The digital licensing and copyright management business became a 51% subsidiary of the Group during the year. After years of negotiations, collaboration arrangements with the Government authorities and major players in the industries were finalised during the year. The ground works for co-operations to create an unprecedented digital copyright management industry in the PRC were laid down. The technical interfacing with a major telecommunication operator and the largest audio/video entertainment on-line portal in the PRC is completed and tested this quarter. Hence, the business will fully launch in the coming quarter of 2010.

I. Digital Licensing and Copyright Management Business

A. *Government/Industry*

In April 2009, the Group has entered into a memorandum of understanding with China Audio and Video Copyright Association ("CAVCA"), the only audio/video copyrights management organisation approved by the National Copyright Administration of the PRC (國家版權局), according to which CAVCA will co-operate with the Group to provide digital copyright management solution in the wireless network territory. On 25 October, 2009, at the China International Copyright Fair in Beijing, CAVCA formally announced such technology partnership with the Group.

In January 2010, the Group entered into a ten-year full technical collaboration agreement with CAVCA. The parties will work together to provide e-License digital copyrights management system to major service providers of the telecommunication and the Internet and other digital media service providers in the PRC.

B. *Telecommunication*

A tripartite agreement was reached among CAVCA, a major telecommunication operator in the PRC and the Group for the provision of e-License digital copyrights management system. The operation is expected to commence in the coming quarter of 2010.

The Group is in final negotiation stage on a tripartite agreement similar to the aforesaid with CAVCA and another major telecommunication operator in the PRC.

C. *The Internet*

Through the partnership with CAVCA, the Group has reached agreement with the largest audio/video entertainment on-line portal in the PRC for the provision of e-License digital copyrights management system and the development of digital Japanese audio/video entertainment contents (including music, animation, comic, etc) platform on such portal.

MANAGEMENT DISCUSSION AND ANALYSIS

II. Digital Contents

The Group has obtained authorisations from two major record labels, avex and Warner/Chappell, for the provision of licensed audio entertainment contents. The Group has entered into agreements with China Unicom for the provision of such licensed contents. The Group is also in negotiation with other major record labels, another major telecommunication operator in the PRC and the largest audio/video entertainment on-line portal in the PRC on the same arrangement.

The Group is the sole agent of a Japanese popular multi-media drama series "Revolution station 5 +25" (「革命station 5+25」) in the PRC, Hong Kong, Taiwan, Macao and is in final negotiation with China Mobile Multimedia Broadcasting, a wholly owned subsidiary of the State Administration of Radio, Film and Television (廣電總局) on broadcasting of such drama series on the mobile network with CMMB specification of a major telecommunication operator in the PRC. The broadcasting is expected to commence in the second quarter of 2010. The Group is in negotiation with an European cultural organization on assignment of broadcasting time on such mobile network.

III. E-Learning business

The E-Learning business has achieved significant steps forward in 2009.

The Hong Kong Government, in recent years, has placed high emphasis on education particularly the language proficiency and on-line education. The Group is actively working with primary schools in Hong Kong to secure funding from the Hong Kong Government on language enhancement and E-Learning resources projects. With the Group serving over 400 primary and secondary schools in Hong Kong of over 40% penetration rate and the business partnership with Cambridge University Press, the Group is well-positioned to capture such business opportunity and hence, the business will be further expanded.

The Group has entered into an exclusive distribution agreement with mimio, a subsidiary of Newell Rubbermaid (a Standard & Poor's 500 company). The Group is now the exclusive distributor in Hong Kong and Macao of the mimio interactive whiteboard technologies, and such interactive educational solutions are being widely adopted in the United States, Mexico and many parts of the world.

The Group has successfully penetrated into 100% of the government-owned/aided primary and secondary schools in Macao to provide its interactive English and Portuguese learning platform commissioned by the Macao Education and Youth Bureau.

The Group will build up the necessary profile and expertise to expand the business into the PRC and at the same time, the Group will explore business opportunities to develop on-line digital education platform in the PRC through its existing networks and relationships.

IV. In-car navigation system and other developments

To capitalise on the aforesaid developments of the digital licensing and copyright management and content businesses, the Group has deployed all the necessary resources on research and development, system localisation and customisation to further enter into in-car navigation system and other digital media.

The Group will provide licensed/invested audio and video entertainment contents to the in-car navigation system installed in the high-ended brands of Japanese automakers using e-License digital copyrights management system for allocation of copyrights income and will subsequently extend to other high-ended brands. The Group will also provide e-License digital copyrights management system and licensed/invested contents for Background Music (BGM), Internet bar and Karaoke (Web-based) via fixed line and broadband network.

FINANCIAL REVIEW

Results

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK$4,150,000 (2008: approximately HK$985,000). The increase in turnover was driven by the robust growth in sales of e-Learning business.

Administrative expenses for the year ended 31 December 2009 decreased by approximately 48.6 % to approximately HK$15,044,000 as compared to approximately HK$29,284,000 in last year.

Net loss attributable to shareholders for the year ended 31 December 2009 was reduced to approximately HK$8,767,000, a 86.7% improvement as compared to a net loss of approximately HK$66,159,000 in last year. Such improvement was mainly attributable to the decrease in the overhead expenses resulting from the disposal of loss-making businesses in the previous year.

Liquidity and financial resources

As at 31 December 2009, the Group had current assets of approximately HK$42,454,000 (2008: HK$15,926,000) and current liabilities of approximately HK$3,746,000 (2008: HK$8,527,000). The current assets were comprised mainly of cash and bank balances of HK$29,052,000 (2008: HK$12,109,000) and trade and other receivables of HK$11,674,000 (2008: HK$1,473,000). The Group's current liabilities were comprised mainly of trade and other payables of approximately HK$3,059,000 (2008: HK$2,416,000). The Group had no bank borrowings at 31 December 2009 (2008: Nil). As at 31 December 2009, the Group had a current ratio of approximately 11.3 as compared to that of 1.87 at 31 December 2008.

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 2009, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

Material acquisitions and disposal of subsidiaries and affiliated companies

(a) On 19 January 2009, the Company completed the disposal of 100% equity interest in KanHan Technologies Inc. at a consideration of HK$1,000,000. Details of the disposal were set out in the circular of the Company dated 31 December 2008.

(b) On 14 August 2009, Cheer Plan Limited ("Cheer Plan"), a wholly-owned subsidiary of the Company entered into an agreement with Mr. Yuan Sheng Jun (the "Vendor") in relation to the acquisition of 9.17% equity interest held by the Vendor in Far Glory Limited ("Far Glory") for a total consideration of HK$13,755,000 and such acquisition was completed on 28 September 2009. The consideration was fully settled by the issue of 146,329,787 new shares of the Company to the Vendor on 28 September 2009.

Upon completion of the acquisition, Cheer Plan holds 29.43% equity interest in Far Glory. Details of the acquisition were set out in the circular dated 8 September 2009.

(c) On 8 October 2009, Cheer Plan a wholly-owned subsidiary of the Company entered into an agreement with Daily Technology Company Limited (the "Vendor") in relation to the acquisition of 21.57% equity interest held by the Vendor in Far Glory for a total consideration of HK$32,355,000. The consideration was partially settled by the issue of convertible bonds with nominal value of HK$26,903,000, and the balance of HK$5,452,000 was settled by the issue of 58,000,000 new shares of the Company.

Upon completion of the acquisition on 16 December 2009, Cheer Plan holds 51% equity interest in Far Glory. Details of the acquisition were set out in the circular dated 23 November 2009.

POST BALANCE SHEET EVENTS

(i) In January 2010, the Group entered into a ten-year full technical collaboration agreement with China Audio and Video Copyright Association. The parties will work together to provide e-License digital copyrights management system to major service providers of the telecommunication and the Internet and other digital media service providers in the PRC.

(ii) On 11 February 2010, the Company entered into an agreement with Far Glory Limited ("Far Glory") to grant a revolving facility by way of a loan agreement 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 and its subsidiaries ("Far Glory Group").

The Company indirectly holds 51% equity interest in Far Glory Group, therefore Far Glory is a connected person of the Company under rule 20.11 (5) of the GEM Listing Rules. The loan agreement and the transactions contemplated thereunder constitute a continuing connected transaction for the Company. For detail information, please refer to the announcement of the Company dated 11 February 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company does not have any reserves available for cash distribution and/or distribution in specie. In addition, the Company's share premium account with a balance of approximately HK$100,826,000 as at 31 December 2009 (2008: HK$68,103,000).

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 minimize 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 2009, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2009, the Group had 23 (2008: 40) full-time employees. Employee costs for the year 2009, excluding directors' emoluments, amounted to approximately HK$5,772,000 (2008: HK$8,151,000). 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximise the interests of shareholders during the period under review.

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 2009.

BOARD OF DIRECTORS AND BOARD MEETINGS

The board members for the year ended 31 December 2009 and up to the date of this report were:

Executive directors:

Mr. Pang Hong Tao *(Chairman)*	
Mr. Hsu Tung Sheng *(Chief executive officer)*	(appointed on 3 June 2009)
Ms. Au Shui Ming, Anna	
Mr. Mo Wai Ming, Lawrence	(resigned on 19 January 2009)

Non-executive director:

Mr. Ma She Shing, Albert

Independent non-executive directors:

Mr. Lee Kun Hung	
Mr. Kwok Chi Sun, Vincent	
Mr. Wong Tak Shing	(appointed on 15 December 2009)
Mr. Hsu William Shiu Foo	(passed away on 20 November 2009)

The board of directors (the "Board") is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives formulated by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The directors' biographical information is set out on pages 17 and 18 of this Annual Report. All executive directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the Board.

The Company appointed three independent non-executive directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. All of them have been appointed for a term of one year commencing from the date of appointment and will continue thereafter until terminated by either party giving each other not less than one month's notice. Each director should be subject to retirement by rotation at least once every three years.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive directors to be independent.

The Board held a full board meeting for each quarter.

Details of the attendance of the meetings of the Board are as follows:

Directors		**Attendance**
Mr. Pang Hong Tao		4/4
Mr. Hsu Tung Sheng	(appointed on 3 June 2009)	3/4
Ms. Au Shui Ming, Anna		4/4
Mr. Ma She Shing, Albert		4/4
Mr. Kwok Chi Sun, Vincent		4/4
Mr. Lee Kun Hung		3/4
Mr. Wong Tak Shing	(appointed on 15 December 2009)	1/4
Mr. Hsu William Shiu Foo	(passed away on 20 November 2009)	3/4
Mr. Mo Wai Ming, Lawrence	(Resigned on 19 January 2009)	0/4

Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board level decision on a particular matter is required.

Chairman and Chief Executive Officer

The roles of Chairman and chief executive officer of the Company are segregated and are not exercised by the same individual. Currently, Mr. Pang Hong Tao, who is the Chairman of the Board, takes up the responsibility of the management of the Board whereas Mr. Hsu Tung Sheng, the Chief Executive Officer of the Company, is responsible for the day-to-day management of the Group's business.

Non-executive Director

Code provision A.4.1 provides that non-executive director should be appointed for a specific term and subject to re-election. The Company's non-executive director has been appointed for specific term and subject to re-election.

REMUNERATION OF DIRECTORS

The remuneration committee was established in June 2005 with written terms of reference in compliance with the code provision. The remuneration committee consists of three members, of which two are independent non-executive directors, namely Mr. Kwok Chi Sun, Vincent and Mr. Lee Kun Hung, and one is executive director, namely Ms. Au Shui Ming, Anna, who was appointed on 19 January 2009 to replace Mr. Mo Wai Ming, Lawrence who was resigned on the same date. The chairman of the committee is Mr. Kwok Chi Sun, Vincent.

The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors.

During the period under review, a meeting of the remuneration committee was held in December 2009. Details of the attendance of the meeting of the remuneration committee are as follows:

Members	**Attendance**
Mr. Kwok Chi Sun, Vincent	1/1
Mr. Lee Kun Hung	1/1
Ms. Au Shui Ming, Anna (appointed on 19 January 2009)	1/1
Mr. Mo Wai Ming, Lawrence (resigned on 19 January 2009)	0/1

NOMINATION OF DIRECTORS

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.

AUDITORS' REMUNERATION

During the year ended 31 December 2009, the fees paid to the auditors in respect of audit and non-audit services provided by the auditors of the Group were as follows:

Nature of services	**Amount (HK$'000)**
Audit services	290
Non-audit services	251

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 controls system of the Group and provide advice and comments on the Company's draft annual reports, interim reports and quarterly reports to directors. The audit committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Lee Kun Hung, and Mr. Wong Tak Shing, who was appointed on 15 December 2009 to replace the passing away of Mr. Hsu William Shiu Foo. The chairman of the audit committee is Mr. Kwok Chi Sun, Vincent.

The audit committee held four meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members		**Attendance**
Mr. Kwok Chi Sun, Vincent		4/4
Mr. Lee Kun Hung		4/4
Mr. Wong Tak Shing	(appointed on 15 December 2009)	1/4
Mr. Hsu William Shiu Foo	(passed away on 20 November 2009)	3/4

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2009 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 requirements and that adequate disclosures have been made.

INTERNAL CONTROLS

The Board is responsible for maintaining the Group's internal controls and reviewing the effectiveness of these controls. Internal control systems are designed to meet the particular needs of the Group and the risk to which it is exposed.

The key control procedures established by the Group are day-to-day supervision of the business by the executive directors, supported by the managers responsible for the operation and the key division support functions of finance, information system and human resources. Key elements of internal controls described below have been in place throughout the year under review:

– procedures for the approval of capital expenditure and payments;
– regular financial information provided to management for reviewing the Group's performance;
– clearly defined management structure and lines of responsibility.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to events or condition that might cast significant doubt upon the Company's ability to continue in business. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual, half-yearly and quarterly reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Board believes that a transparent and timely disclosure of the Group's information will enable shareholders and investors to make the best investment decision and to have better understanding on the Group's business performance and strategies. It is also vital for developing and maintaining continuing investor relations with the Company's potential and existing investors.

The Company maintains a website at "www.chinadigitallic.com" as a communication platform with shareholders and investors, where information and updates on the Group's financial information and other information are available for public access.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Pang Hong Tao, aged 40, the executive director and chairman of the Company, holds a bachelor's degree in economics from Nankai University, the People's Republic of China ("PRC") and a master degree in economics from the Renmin University of China. Mr. Pang is the chairman of Finance Committee of ShanDong-HongKong SME Association. He is a member of Chinese Institute of Certified Public Accountants, China Appraisal Society, Shan Dong Certified Consultant Expert Society and China Enterprise Risk Management Society. Mr. Pang has over ten years of experience in financial management, risk management, financial budgeting and corporate finance. He has worked as a chief accountant in an international five-star hotel, the deputy general manager in a management consultancy company and the partner in a Certified Public Accountants firm. Mr. Pang is currently the partner and deputy general manager of a Certified Public Accountants firm in the PRC.

Mr. Hsu Tung Sheng, aged 42, was appointed as an executive director and chief executive office of the Company on 3 June 2009. Mr. Hsu holds a bachelor's degree in law from the National Chengchi University (Taiwan) (國立政治大學(台灣)). Mr. Hsu has over 10 years' experience in advisory on management, operation and strategic planning. Mr. Hsu was a consultant of Toyota Tsusho Corporation ("Toyota Tsusho") and participated in numerous large investment projects for Toyota Tsusho. Mr. Hsu has built up a good relationship with enterprises in Japan. Mr. Hsu will be responsible for marketing, management function and business operation of the copyright management and digital licensing business of the Group. He is an executive director and chairman of Palmpay China Holdings Limited, a company listed on the GEM of the Stock Exchange.

Ms. Au Shui Ming, Anna, aged 45, holds a bachelor degree in commerce, majoring in accounting, from the University of Wollongong in Australia. She is a Certified Practising Accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Ms. Au has extensive experience in the finance and accounting fields. She is currently the Company Secretary and the remuneration committee member of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Ma She Shing, Albert, aged 49, has over 19 years of corporate banking and private banking experience in major US and European institutions. He was previously a vice president in a renowned US investment bank in Hong Kong. Mr. Ma holds a Bachelor of Arts degree in Economics from Pomona College, California, US.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwok Chi Sun, Vincent, aged 47, a member of the audit committee and remuneration committee of the Company, is a sole proprietor of Vincent Kwok & Co. and is a Certified Public Accountant. He is also an independent non-executive director of five other listed companies in Hong Kong, i.e. Shun Ho Resources Holdings Limited, Shun Ho Technology Holdings Limited, Magnificent Estates Limited, Emperor Capital Group Limited and Palmpay China (Holdings) Limited, the former four names companies are listed on main board of the Stock Exchange while the last named company is listed on GEM of the Stock Exchange.

DIRECTORS' PROFILE

Mr. Lee Kun Hung, aged 44, a member of the audit committee and remuneration committee of the Company, has over 15 years of manufacturing experience in the watch industry. Mr. Lee holds a Bachelor of Arts degree from Boston College, Massachusetts, US.

Mr. Wong Tak Shing, aged 47, was appointed as an independent non-executive director and audit committee member on 15 December 2009, graduated from the University of New England, Australia with a Postgraduate Diploma in Financial Management and from the University of Southampton, U.K. with a Bachelor of Social Science in Business Economics and Accounting. Mr. Wong is currently an associate member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years of experience in corporate finance, accounting, personnel and administration. Mr. Wong was previously an executive director of Palmpay China (Holdings) Limited, a company listed on the GEM of the Stock Exchange and an independent non-executive director of Sun Innovation Holdings Limited, a company listed on the main board of the Stock Exchange.

DIRECTORS' REPORT

The directors present the annual report and the audited financial statements of the Group for the year ended 31 December 2009.

DATE OF INCORPORATION

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 17 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on pages 29 and 30.

The directors do not recommend the payment of a dividend.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2009 are set out in the consolidated statement of changes in equity on page 34.

PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the financial statements.

DONATIONS

Donations made by the Group during the year amounted to HK$35,000.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Mr. Pang Hong Tao *(Chairman)*	
Mr. Hsu Tung Sheng *(Chief executive officer)*	(appointed on 3 June 2009)
Ms. Au Shui Ming, Anna	
Mr. Mo Wai Ming, Lawrence	(resigned on 19 January 2009)

Non-executive director:

Mr. Ma She Shing, Albert

Independent non-executive directors:

Mr. Lee Kun Hung	
Mr. Kwok Chi Sun, Vincent	
Mr. Wong Tak Shing	(appointed on 15 December 2009)
Mr. Hsu William Shiu Foo	(passed away on 20 November 2009)

In accordance with Articles 108 (a) and (b) of the Company's Articles of Association, Mr. Hsu Tung Sheng, Mr. Kwok Chi Sun, Vincent and Mr. Wong Tak Shing and shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors, non-executive director and independent non-executive directors of the Company has entered into a letter of appointment with the Company for a term of one year commencing from the date of appointment, which will continue thereafter until terminated by either party by giving to the other not less than one month's notice in writing.

The Board has obtained written confirmations from all independent non-executive directors of the Company concerning their independence in accordance with Rule 5.09 of the GEM Listing Rules. The Board believes that the existing independent non-executive directors are independent based on the guidelines set out in Rule 5.09 of the GEM Listing Rules.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

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

(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. Pang Hong Tao	Beneficial	29,800,000 (L)	1.54%
Mr. Hsu Tung Sheng	Beneficial	13,000,000 (L)	0.67%
Mr. Ma She Shing, Albert	Beneficial	9,870,000 (L)	0.51%
Ms. Au Shui Ming, Anna	Beneficial	41,500,000 (L)	2.14%

(L) denotes long position

(ii) Interest in share options

Name of director	Nature of interests	Number of share options granted	Approximate percentage of interests
Mr. Pang Hong Tao	Beneficial	13,000,000 (L)	0.67%
Mr. Hsu Tung Sheng	Beneficial	6,000,000 (L)	0.31%
Mr. Ma She Shing, Albert	Beneficial	19,000,000 (L)	0.98%
Ms. Au Shui Ming, Anna	Beneficial	13,000,000 (L)	0.67%

(L) denotes long position

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

SHARE OPTION SCHEME

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 2009	Granted during the year	Exercised during the year	Outstanding at 31 December 2009	Exercise price HK$	Grant date	Exercisable period
Directors							
Mr. Pang Hong Tao	6,300,000	–	(6,300,000)	–	0.151	21/12/2007	18/1/2008 – 20/12/2017
	7,000,000	–	(7,000,000)	–	0.101	28/8/2008	16/9/2008 – 27/8/2018
	–	6,000,000	(6,000,000)	–	0.059	2/4/2009	2/4/2009 – 1/4/2014
	–	13,000,000	–	13,000,000	0.177	16/12/2009	30/12/2009 – 15/12/2011
Mr. Hsu Tung Sheng	–	13,000,000	(13,000,000)	–	0.059	2/4/2009	2/4/2009 – 1/4/2014
	–	6,000,000	–	6,000,000	0.177	16/12/2009	29/12/2009 – 15/12/2011
Ms. Au Shui Ming,	6,000,000	–	(6,000,000)	–	0.151	21/12/2007	18/1/2008 – 20/12/2017
Anna	7,000,000	–	(7,000,000)	–	0.101	28/8/2008	16/9/2008 – 27/8/2018
	–	6,000,000	(6,000,000)	–	0.059	2/4/2009	2/4/2009 – 1/4/2014
	–	13,000,000	–	13,000,000	0.177	16/12/2009	30/12/2009 – 15/12/2011
Mr. Ma She Shing,	10,000,000	–	(9,000,000)	1,000,000	0.101	28/8/2008	16/9/2008 – 27/8/2018
Albert	–	18,000,000	–	18,000,000	0.177	16/12/2009	30/12/2009 – 15/12/2011
Employees	31,000,000	–	(31,000,000)	–	0.101	28/8/2008	16/9/2008 – 27/8/2018
	–	30,000,000	(30,000,000)	–	0.059	2/4/2009	2/4/2009 – 1/4/2014
	–	80,000,000	–	80,000,000	0.177	16/12/2009	30/12/2009 – 15/12/2011
	67,300,000	185,000,000	(121,300,000)	131,000,000			

Particulars of the Company's share option scheme are set out in note 31 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those transaction as disclosed in note 37 to the financial statement, no director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

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

(i) Interest in Shares

Name of director	Nature of interest	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 corporation	395,698,238 (L)	20.39%
	Deemed	4,500,000 (L)	0.23%
Ms. Chan Yiu Kan Katie *(Note 1)*	Beneficial	4,500,000 (L)	0.23%
	Deemed	395,698,238 (L)	20.39%
Manciple Enterprises Limited *(Note 1)*	Beneficial	395,698,238 (L)	20.39%
Mr. Hsu Tung Chi *(Note 2)*	Interest of controlled corporation	58,000,000 (L)	2.99%
Ms. Chuang Meng Hua *(Note 2)*	Deemed	58,000,000 (L)	2.99%
Daily Technology Company Limited *(Note 2)*	Beneficial	58,000,000 (L)	2.99%

(L) denotes long position

Notes:

1. Manciple Enterprises Limited ("Manciple") is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau"). Manciple beneficially owns 395,698,238 shares. Under the SFO, Mr. Lau is deemed to be interested in 395,698,238 shares.

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

2. Daily Technology Company Limited ("Daily Technology") is beneficially owned as to 98% by Mr. Hsu Tung Chi ("Mr. Hsu"). Daily Technology beneficially owns 58,000,000 shares. Under the SFO, Mr. Hsu is deemed to be interested in 58,000,000 shares.

   Ms. Chuang Meng Hua is deemed to be interested in 58,000,000 shares by virtue of her being the spouse of Mr. Hsu.

(ii) 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	Share options *(Note 1)*	19,000,000 (L)	0.98%
	Beneficial	Convertible bonds *(Note 2)*	122,222,222 (L)	6.29%
	Interest of controlled corporation	Convertible bonds *(Note 2)*	286,202,127 (L)	14.75%
Ms. Chuang Meng Hua	Deemed	Share options *(Note 3)*	19,000,000 (L)	0.98%
	Deemed	Convertible bonds *(Note 3)*	408,424,349 (L)	21.04%
Daily Technology Company Limited	Deemed	Convertible bonds *(Note 2)*	286,202,127 (L)	14.75%

(L) denotes long position

Notes:

1. On 16 December 2009, the Company granted share options to Mr. Hsu Tung Chi ("Mr. Hsu") to subscribe for 19,000,000 shares under the Share Option Scheme at an exercise price of HK$0.177 per share.

2. According to the sale and purchase agreement entered into among Cheer Plan Limited ("Cheer Plan"), a wholly owned subsidiary of the Company, 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. During the year, 100,000,000 convertible bonds were redeemed by the Company. As at 31 December 2009, there were 122,222,222 convertible bonds outstanding.

   Daily Technology is beneficially owned as to 98% by Mr. Hsu. Pursuant to the agreement entered into among 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.

3. Ms. Chuang Meng Hua is deemed to be interested in the aforesaid share options and convertible bonds of the Company by virtue of her being the spouse of Mr. Hsu.

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

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Share Option Scheme" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

CONNECTED TRANSACTIONS

(a) On 5 December 2008, the Company entered into an agreement with Mr. Mo Wai Ming, Lawrence ("Mr. Mo), an executive director of the Company resigned on 19 January 2009, for the disposal of the entire equity interest in KanHan Technologies Inc. at a consideration of HK$1,000,000. Since Mr. Mo was an executive director of the Company at the time of entering into the disposal agreement, the disposal therefore constituted a connected transaction on the part of the Company under the GEM Listing Rules. The disposal transaction was completed on 19 January 2009.

(b) On 14 August 2009, Cheer Plan Limited ("Cheer Plan"), a wholly-owned subsidiary of the Company entered into an agreement with Mr. Yuan Sheng Jun (the "Vendor") in relation to the acquisition of 9.17% equity interest held by the Vendor in Far Glory Limited ("Far Glory") for a total consideration of HK$13,755,000. Since Mr. Hsu Tung Sheng, an executive director of the Company and his younger brother, Mr. Hsu Tung Chi are substantial shareholders of Far Glory, the acquisition therefore constituted a connected transaction on the part of the Company under the GEM Listing Rules. The acquisition was completed on 28 September 2009.

(c) On 8 October 2009, Cheer Plan a wholly-owned subsidiary of the Company entered into an agreement with Daily Technology Company Limited (the "Vendor") in relation to the acquisition of 21.57% equity interest held by the Vendor in Far Glory for a total consideration of HK$32,355,000. Since Mr. Hsu Tung Chi, being the substantial shareholder of the Vendor is the younger brother of Mr. Hsu Tung Sheng, an executive director of the Company, the acquisition therefore constituted a connected transaction on the part of the Company under the GEM Listing Rules. The acquisition was completed on 16 December 2009.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest customer and the five largest customers accounted for 12.6% (2008: 15.7%) and 19% (2008: 37.3%) respectively, of the Group's total turnover.

During the year, the Group's revenue was derived from e-Learning business which is developed internally. Accordingly, information on the Group's major suppliers is not meaningful.

During the year ended 31 December 2008, the Group's largest supplier and the five largest suppliers accounted for 11.9% and 30.5% respectively, of the Group's total cost of sales.

In the opinion of the directors, none of the directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest suppliers or customers.

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.

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.

AUDITOR

The financial statements for the financial years ended 31 December 2007 and 2008 were audited by Vision A.S. Limited. Vision A.S. Limited, who acted as auditor of the Company since 27 October 2007, had resigned on 7 October 2009 and Mazars CPA Limited, *Certified Public Accountants*, was appointed as auditor of the Company on 12 October 2009 to fill the casual vacancy and to hold office until the conclusion of the forthcoming annual general meeting of the Company, who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Pang Hong Tao
CHAIRMAN

29 March 2010

INDEPENDENT AUDITOR'S REPORT

MAZARS

To the shareholders of
China Digital Licensing (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 29 to 94, which comprise the consolidated and the Company's statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2010

Eunice Y M Kwok
Practising Certificate number: P04604

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Continuing operations			
Turnover	5	**4,150**	985
Cost of services rendered		**(764)**	(178)
Gross profit		**3,386**	807
Other income	6	**40**	445
Selling and distribution costs		**(275)**	–
Administrative and other expenses		**(15,044)**	(29,284)
Finance costs	7	**(947)**	(842)
Share of losses of jointly controlled entities/associates		**(69)**	(22)
Loss before taxation	8	**(12,909)**	(28,896)
Income tax expense	11	**(224)**	(77)
Loss for the year from continuing operations		**(13,133)**	(28,973)
Discontinued operations	13	**4,674**	(41,432)
Loss for the year		**(8,459)**	(70,405)
Other comprehensive income for the year			
Currency translation differences		**–**	2,211
Total comprehensive loss for the year		**(8,459)**	(68,194)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
(Loss) Profit attributable to:			
Equity holders of the Company	12	**(8,767)**	(66,159)
Minority interests		**308**	(4,246)
		(8,459)	(70,405)
Total comprehensive (loss) income attributable to:			
Equity holders of the Company		**(8,767)**	(65,030)
Minority interests		**308**	(3,164)
		(8,459)	(68,194)
Dividends	14	**–**	–
Basic and diluted (loss) earnings per share	15		
From continuing and discontinued operations		**HK(0.59) cents**	HK(4.97) cents
From continuing operations		**HK(0.91) cents**	HK(2.19) cents
From discontinued operations		**HK0.32 cents**	HK(2.78) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	16	**100**	204
Interests in associates	18	**–**	65,228
Interests in jointly controlled entities	19	**9,455**	–
Goodwill	20	**109,296**	19,826
		118,851	85,258
Current assets			
Inventories	21	**143**	–
Trade and other receivables	22	**11,674**	1,473
Due from a director of a subsidiary/a director	23	**1,585**	20
Bank balances and cash		**29,052**	12,109
		42,454	13,602
Assets of a disposal group classified as held for sale		**–**	2,324
		42,454	15,926
Current liabilities			
Other payables	24	**3,059**	2,416
Loans from minority shareholders of a subsidiary	25	**490**	–
Tax payable		**197**	44
		3,746	2,460
Liabilities associated with assets classified as held for sale		**–**	6,067
		3,746	8,527
Net current assets		**38,708**	7,399
Total assets less current liabilities		**157,559**	92,657
Non-current liabilities			
Promissory note	26	**–**	3,740
Convertible bonds	27	**24,895**	22,735
Other payables	28	**18,000**	26,160
Deferred tax liabilities	33	**16**	33
		42,911	52,668
NET ASSETS		**114,648**	39,989

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	29	**97,029**	66,519
Reserves		**4,414**	(27,202)
Equity attributable to equity holders of the Company		**101,443**	39,317
Minority interests		**13,205**	672
TOTAL EQUITY		**114,648**	39,989

Approved and authorised for issue by the Board of Directors on 29 March 2010

Pang Hong Tao
Director

Hsu Tung Sheng
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Interests in subsidiaries	17	**106,244**	60,500
Current assets			
Trade and other receivables	22	**212**	241
Due from a director	23	**–**	20
Bank balances and cash		**20,876**	10,377
		21,088	10,638
Current liabilities			
Other payables	24	**306**	692
Net current assets		**20,782**	9,946
Total assets less current liabilities		**127,026**	70,446
Non-current liabilities			
Promissory note	26	**–**	3,740
Convertible bonds	27	**24,895**	22,735
		24,895	26,475
NET ASSETS		**102,131**	43,971
Capital and reserves			
Share capital	29	**97,029**	66,519
Reserves		**5,102**	(22,548)
TOTAL EQUITY		**102,131**	43,971

Approved and authorised for issue by the Board of Directors on 29 March 2010

Pang Hong Tao
Director

Hsu Tung Sheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	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$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	66,519	68,861	10,084	543	–	–	(46,351)	33,137	99,656	18,019	117,675
Issue of convertible bonds	–	–	–	–	–	3,453	–	3,453	3,453	–	3,453
Redemption of convertible bonds	–	–	–	–	–	(617)	–	(617)	(617)	–	(617)
Share issue expenses	–	(253)	–	–	–	–	–	(253)	(253)	–	(253)
Open offer expenses	–	(505)	–	–	–	–	–	(505)	(505)	–	(505)
Employee share-based payment	–	–	–	–	4,354	–	–	4,354	4,354	–	4,354
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	6,019	6,019
Disposal of subsidiaries	–	–	–	(1,741)	–	–	–	(1,741)	(1,741)	(20,202)	(21,943)
Total comprehensive loss for the year	–	–	–	1,129	–	–	(66,159)	(65,030)	(65,030)	(3,164)	(68,194)
At 31 December 2008	66,519	68,103	10,084	(69)	#4,354	2,836	(112,510)	(27,202)	39,317	672	39,989

		Attributable to equity holders of the Company										
			Reserves									
	Note	**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$'000**	**Minority interests HK$'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**
Issue of consideration shares	*29(iii)*	**10,216**	**8,991**	**–**	**–**	**–**	**–**	**–**	**8,991**	**19,207**	**–**	**19,207**
Issue of convertible bonds	*27(iii)*	**–**	**–**	**–**	**–**	**–**	**5,826**	**–**	**5,826**	**5,826**	**–**	**5,826**
Conversion of convertible bonds	*27(i)*	**579**	**1,662**	**–**	**–**	**–**	**(280)**	**–**	**1,382**	**1,961**	**–**	**1,961**
Cancellation of convertible bonds	*27(i)*	**–**	**–**	**–**	**–**	**–**	**(47)**	**–**	**(47)**	**(47)**	**–**	**(47)**
Redemption of convertible bonds	*27(ii)*	**–**	**–**	**–**	**–**	**–**	**(2,075)**	**876**	**(1,199)**	**(1,199)**	**–**	**(1,199)**
Issue of new shares	*29(ii)*	**13,650**	**15,015**	**–**	**–**	**–**	**–**	**–**	**15,015**	**28,665**	**–**	**28,665**
Share issue expenses		**–**	**(717)**	**–**	**–**	**–**	**–**	**–**	**(717)**	**(717)**	**–**	**(717)**
Employee share-based payment	*31(i)*	**–**	**–**	**–**	**–**	**6,571**	**–**	**–**	**6,571**	**6,571**	**–**	**6,571**
Exercise of share options	*31(ii)*	**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**
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(8,767)**	**(8,767)**	**(8,767)**	**308**	**(8,459)**
At 31 December 2009		**97,029**	**100,826**	**10,084**	**–**	**#7,645**	**6,260**	**(120,401)**	**4,414**	**101,443**	**13,205**	**114,648**

* The special reserve represents the difference between the nominal amount of shares and share premium of subsidiaries acquired and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation took place in 2003.

\# Included in employee share-based payment reserve was an amount of HK$1,928,000 relating to the share options lapsed in 2008 due to resignation of certain employees.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(8,235)**	(74,064)
Amortisation of prepaid land lease payments		**–**	9
Amortisation of intangible assets		**–**	7
Amortisation of deferred government grants		**–**	(274)
Depreciation of property, plant and equipment		**119**	2,665
Employee share-based payment		**6,571**	4,354
Inventories written-off		**–**	1,416
Impairment loss of goodwill		**–**	36,000
Impairment loss of intangible assets		**–**	1,464
Impairment loss of trade and other receivables		**–**	19,851
Loss on cancellation of convertible bonds		**7**	–
Property, plant and equipment written-off		**–**	389
Share of losses of jointly controlled entities/associates		**69**	22
Finance costs		**947**	842
Interest income		**(26)**	(760)
Gain on disposal of subsidiaries		**(4,703)**	(5,549)
Changes in working capital:			
Inventories		**(143)**	(2,171)
Trade and other receivables		**(2,399)**	(2,843)
Due from a director		**20**	(27)
Other payables		**764**	(315)
Loans from minority shareholders of a subsidiary		**490**	–
Cash used in operating activities		**(6,519)**	(18,984)
Interest paid		**(1)**	–
Income taxes paid		**(88)**	–
Net cash used in operating activities		**(6,608)**	(18,984)
INVESTING ACTIVITIES			
Net cash inflow (outflow) from acquisition of subsidiaries	35	**6,185**	(4,147)
Net cash inflow from disposal of subsidiaries	36	**561**	8,710
Interest received		**26**	760
Investments in associates		**–**	(25,250)
Purchases of property, plant and equipment		**(15)**	(1,806)
Net cash from (used in) investing activities		**6,757**	(21,733)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
FINANCING ACTIVITIES		
Interest on convertible bonds paid	**(167)**	(37)
Interest on promissory notes paid	**(43)**	(159)
Open offer expenses	**–**	(505)
Proceeds from issue of share capital	**28,665**	–
Proceeds from settlement of promissory note receivable	**–**	37,500
Proceeds from shares issued under share-based payment scheme	**10,557**	–
Redemption of convertible bonds	**(18,000)**	(10,000)
Repayment of promissory notes	**(3,740)**	(23,567)
Shares issue expenses	**(717)**	(253)
Net cash from financing activities	**16,555**	2,979
Net increase (decrease) in cash and cash equivalents	**16,704**	(37,738)
Cash and cash equivalents at beginning of the reporting period	**12,348**	48,287
Effect of foreign exchange rate changes, net	**–**	1,799
Cash and cash equivalents at end of the reporting period	**29,052**	12,348
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**29,052**	12,109
Cash and cash equivalents included in assets of a disposal group classified as held for sale	**–**	239
	29,052	12,348

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2009

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 principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 17 to the financial statements.

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 2008 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 financial statements.

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

3. PRINCIPAL ACCOUNTING POLICIES

Adoption of new/revised HKFRS

HKAS 1 (Revised): *Presentation of Financial Statements*

HKAS 1 (Revised) requires transactions with owners to be presented separately from all other income and expenses in a revised statement of changes in equity. The revised Standard however allows non-owner changes in equity to be shown in a single statement (the statement of comprehensive income) or two statements (the income statement and the statement of other comprehensive income). The Group has elected to prepare one statement. In addition, the revised Standard requires that when comparative information is restated or reclassified, a statement of financial position as at the beginning of the comparative period, in addition to the statements of financial position as at the end of the current period and the comparative period, should be presented. Since the Group and the Company did not restate comparative information during the year, this new requirement has no impact on the financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Adoption of new/revised HKFRS *(Continued)*

HKAS 23 (Revised): *Borrowing costs*
HKAS 23 (Revised) eliminated the option to expense borrowing costs and requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Since the Group has not previously adopted the option to expense borrowing costs, the revised Standard has no impact on the financial statements.

Amendments to HKFRS 2: *Share-based payments – Vesting conditions and cancellations*
Amendments to HKFRS 2 clarify that vesting conditions include service and performance conditions only, and all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of these amendments had no impact on the financial statements.

Improvements to HKFRS (2008)
Improvements to HKFRS (2008) contain improvements to a number of Standards aiming to remove inconsistencies and clarify wording in the Standards. The adoption of those improvements had resulted in a number of changes in the details of the Group's accounting policies. Of those changes, only those as described below are considered more significant to the Group:

HKFRS 8: *Operating segments*
HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has no impact on the reported results or financial position of the Group.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of measurement

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceased.

Minority interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity holders of the Company. Losses applicable to the minority shareholder in excess of the minority shareholder's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority shareholder has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated with all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Subsidiaries

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's statement of financial position, an investment in subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The Group's investment in associate is accounted for under the equity method of accounting. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition results of the associate for the year. The consolidated statement of financial position includes the Group's share of the net assets of the associate and also goodwill. The Group discontinues recognising its share of further losses when the Group's share of losses of the associate equals or exceeds the carrying amount of its interest in the associate, which includes any long term interests that, in substance, form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly controlled entities

The Group's investment in jointly controlled entity is accounted for under the equity method of accounting. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition results of the jointly controlled entity for the year. The consolidated statement of financial position includes the Group's share of the net assets of the jointly controlled entity and also goodwill.

In the Company's statement of financial position, an investment in jointly controlled entities is stated at cost less impairment loss determined on an individual basis. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate and jointly controlled entity. Goodwill on acquisition of subsidiary is recognised as a separate asset. Goodwill on acquisitions of associates or jointly controlled entities is included in interests in associates or jointly controlled entities. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of associates and jointly controlled entities at the date of acquisition, after reassessment, is recognised immediately in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Discontinued operations

A discontinued operation is a component of the Group that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group. It represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately.

Buildings	$3\ ^1/_3\%$
Leasehold improvements	$10\% – 33\ ^1/_3\%$
Plant and machinery	$9\ ^1/_2\% – 10\%$
Water pipelines	10%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	20%
Computer equipment	$33\ ^1/_3\%$

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the financial asset and the Group has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Loans and receivables
Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

Impairment of loans and receivables
At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets are impaired.

An allowance for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicator that the trade receivable is impaired.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss.

Financial liabilities
The Group's financial liabilities include other payables and loans from minority shareholders of a subsidiary. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Convertible bond

The component of the convertible bond that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of issue costs.

On the issue of the convertible bond, the fair value of the liability component is determined using a market rate for a similar bond that does not have a conversion option; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Convertible bond *(Continued)*

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bond equity reserve within shareholders' equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bond equity reserve is transferred to share premium account or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bond equity reserve is transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Issue costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of proceeds.

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. For classification in the statement of financial position, cash equivalents represent assets similar in nature to cash and which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Income from e-Learning business represents subscription fees for the on-line education programs and provision of e-Learning services. Subscription fees are recognised as revenue on a pro-rata basis over the contract period. Revenue from provision of other e-Learning services is recognised when e-Learning materials are delivered and installation services are rendered.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill and fair value adjustments on the carrying amounts of assets and liabilities arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at the end of the reporting period;
- Income and expenses for each statement of comprehensive income are translated at average exchange rate;
- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in profit or loss when the gain or loss on disposal is recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to determine whether its property, plant and equipment, interest in subsidiaries and interest in a jointly controlled entities have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Employee benefits

Defined contribution plans
The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested bully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Pursuant to the law and regulations of the People's Republic of China ("the PRC"), contributions to the defined contribution retirement schemes for the Group's PRC staff are made to the relevant government authorities in the PRC, which are calculated on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. These contributions are expensed as incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled transactions

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using the binomial model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company ("market conditions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the years in which the vesting conditions are to be fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, with a corresponding adjustment to the reserve within equity.

Where the terms of an equity-settled award are modified, an additional expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described above. Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position which is eliminated on consolidation.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Related parties

A party is related to the Group if

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Company.

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Segment reporting *(Continued)*

Individual material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Allowance for bad and doubtful debts
The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the trade receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

Impairment of investments and receivables
The Company and the Group assess annually if investment in subsidiaries and jointly controlled entities have suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from these entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Details of the estimates used to calculate the recoverable amount are given in note 20 to the financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Future changes in HKFRS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standard*[1]
HKFRS 1 Amendments	*Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
HKFRS 2 Amendments	*Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	*Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues*[3]
HKAS 39 Amendment	*Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HKFRIC 14 Amendments	*Amendments to HKFRIC 14 Prepayments of a Minimum Funding Requirement*[5]
HKFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
HKFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	*Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Future changes in HKFRS *(Continued)*

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 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 three reporting segments. No operating segments have been aggregated to form the following reporting segments.

- the server-based technology segment provides language communication software and platforms;
- the e-Learning business segment provides e-Learning programs and development of related products;
- the e-Licensing business segment 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 segments to another, including sharing assets and technical know-how, is not measured.

4. SEGMENTAL INFORMATION *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

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 2009 and 2008 is set out below.

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 loss from 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
Interest in 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
Capital expenditure	15	–	15	–	15

4. SEGMENTAL INFORMATION *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Year ended 31 December 2008

	Continuing operations	Discontinued operations				
	e-Learning business HK$'000	Server-based technology HK$'000	Organic fertilizers HK$'000	Water supply HK$'000	Sub-total HK$'000	Consolidated HK$'000
Segment revenue						
Sale to external customers	985	7,853	877	329	9,059	10,044
Segment results	330	(1,152)	(46,762)	(3,095)	(51,009)	(50,679)
Unallocated income	43				292	335
Unallocated expenses	(28,405)				–	(28,405)
Unallocated finance costs	(842)				–	(842)
Gain on disposal of subsidiaries	–				5,549	5,549
Share of loss from associates	(22)				–	(22)
Loss before taxation	(28,896)				(45,168)	(74,064)
Taxation	(77)				3,736	3,659
Loss for the year	(28,973)				(41,432)	(70,405)
Assets and liabilities						
Segment assets	3,168	2,324	–	–	2,324	5,492
Interest in associates						65,228
Unallocated assets						30,464
Consolidated total assets						101,184
Segment liabilities	1,790	6,067	–	–	6,067	7,857
Unallocated liabilities						53,338
Consolidated total liabilities						61,195
Other segment information						
Depreciation and amortisation	73	59	712	1,837	2,608	2,681
Impairment loss of goodwill	–	–	36,000	–	36,000	36,000
Impairment loss of intangible assets	–	–	1,464	–	1,464	1,464
Impairment loss of trade and other receivables	–	–	19,851	–	19,851	19,851
Inventories written-off	–	–	1,416	–	1,416	1,416
Property, plant and equipment written-off	–	1	388	–	389	389
Capital expenditure	–	82	347	1,377	1,806	1,806

4. SEGMENTAL INFORMATION *(Continued)*

(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:

Year ended 31 December 2009

	The PRC HK$'000	Hong Kong HK$'000	Consolidated HK$'000
Segment revenue			
Sale to external customers	**–**	**4,322**	**4,322**
Other segment information			
Non-current assets	**–**	**100**	**100**

Year ended 31 December 2008

	The PRC HK$'000	Hong Kong HK$'000	Consolidated HK$'000
Segment revenue			
Sale to external customers	1,518	8,526	10,044
Other segment information			
Non-current assets	3	319	322

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	
	2009	2008
	HK$'000	HK$'000
Continuing operations		
e-Learning business	**4,150**	985
Discontinued operations		
Provision of water supply services	**–**	329
Putonghua learning platform	**172**	975
Sale of licensed software	**–**	4,641
Sale of organic fertilizers	**–**	877
Software maintenance services	**–**	1,407
Software rental and subscription income	**–**	780
Website development	**–**	50
	172	9,059
Turnover and revenue	**4,322**	10,044

6. OTHER INCOME

	Group	
	2009	2008
	HK$'000	HK$'000
Continuing operations		
Consulting income	**–**	400
Interest income	**26**	43
Sundry income	**14**	2
	40	445
Discontinued operations		
Interest income	**–**	717
Amortisation of deferred government grants	**–**	274
Sundry income	**–**	32
	–	1,023
	40	1,468

7. FINANCE COSTS

	Group	
	2009	2008
	HK$'000	HK$'000
Bank interest expenses	**1**	–
Interest on promissory notes	**23**	124
Interest on convertible bonds	**923**	718
	947	842

8. LOSS BEFORE TAXATION

This is stated after charging:

	Group	
	2009	2008
	HK$'000	HK$'000
Employee benefits expenses (including directors' remuneration)		
Salaries, allowances and benefits in kind	**1,986**	6,400
Contribution to defined contribution schemes	**74**	298
Employee share-based payment	**6,571**	4,354
	8,631	11,052
Auditor's remuneration	**290**	268
Cost of services rendered	**764**	1,442
Cost of inventories sold	**–**	3,407
Depreciation of property, plant and equipment	**119**	2,665
Impairment loss of goodwill included in discontinued operations	**–**	36,000
Impairment loss of intangible assets included in discontinued operations	**–**	1,464
Impairment loss of trade and other receivables	**–**	19,851
Inventories written-off	**–**	1,416
Property, plant and equipment written-off	**–**	389

Included in cost of services provided were other employee benefits, salaries and allowances of approximately HK$730,000 and operating lease payments of approximately HK$63,000 for the year ended 31 December 2008.

No operating lease payments on office premises were made by the Group during the year (2008: HK$1,357,000) as the Group shares its strategic partners' offices for free.

9. DIRECTORS' REMUNERATION

The aggregate amounts of remuneration received and receivable by the Company's directors are as follows:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share-based payment HK$'000	Contribution to defined contribution schemes HK$'000	Total HK$'000
2009					
Executive directors					
Au Shui Ming, Anna	120	467	665	12	1,264
Hsu Tung Sheng (appointed on 3 June 2009)	70	–	263	–	333
Mo Wai Ming, Lawrence (resigned on 19 January 2009)	6	–	–	–	6
Pang Hong Tao	230	–	665	–	895
	426	467	1,593	12	2,498
Non-executive director					
Ma She Sing, Albert	60	–	787	–	847
Independent non-executive directors					
Hsu William Shiu Foo (passed away on 20 November 2009)	55	–	–	–	55
Kwok Chi Sun, Vincent	60	–	–	–	60
Lee Kun Hung	60	–	–	–	60
Wong Tak Shing (appointed on 15 December 2009)	3	–	–	–	3
	178	–	–	–	178
	664	467	2,380	12	3,523

9. DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share-based compensation HK$'000	Contribution to defined contribution scheme HK$'000	Total HK$'000
2008					
Executive directors					
Au Shui Ming, Anna	153	412	545	9	1,119
Mo Wai Ming, Lawrence	120	700	–	12	832
Pang Hong Tao	220	–	561	–	781
Yeung Pei Gen (resigned on 3 April 2008)	30	–	335	–	365
	523	1,112	1,441	21	3,097
Non-executive director					
Ma She Sing, Albert	80	–	323	4	407
Independent non-executive directors					
Hsu William Shiu Foo	60	–	–	–	60
Kwok Chi Sun, Vincent	60	–	–	–	60
Lee Kun Hung	60	–	–	–	60
	180	–	–	–	180
	783	1,112	1,764	25	3,684

There was no arrangement under which a director waived or agreed to waive any remuneration for the year (2008: Nil). In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the year (2008: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2008: three) directors, details of whose remuneration are set out in note 9 to the financial statements above. Details of the remuneration of the remaining two (2008: two) non-directors, highest paid employees for the year are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**–**	–
Employee share-based payment	**1,662**	956
Contribution to defined contribution schemes	**–**	–
	1,662	956

The number of non-directors, highest paid employees whose remuneration fell within the following band:

	Number of employees	
Band	**2009**	2008
Nil to HK$1,000,000	**2**	2

During the year, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office (2008: Nil).

There was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration during the year (2008: Nil).

11. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2008: 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 subsidiaries incurred a loss for taxation purposes.

		Group	
		2009	2008
	Note	**HK$'000**	HK$'000
Current year provision			
Hong Kong profits tax		**241**	44
Overprovision in prior year		**–**	(3,736)
Deferred taxation	*33*	**(17)**	33
Tax expense (credit) for the year		**224**	(3,659)
Attributable to:			
Continuing operations		**224**	77
Discontinued operations	*13*	**–**	(3,736)
		224	(3,659)

11. TAXATION *(Continued)*

Reconciliation of tax expenses (credit)

	Group	
	2009	2008
	HK$'000	HK$'000
Loss before taxation	**(8,235)**	(74,064)
Tax at the applicable rate of 16.5% (2008: 16.5%)	**(1,358)**	(12,220)
Share of loss of jointly controlled entities/associates	**11**	4
Non-deductible expenses	**1,577**	10,791
Non-taxable revenue	**(6)**	(931)
Unrecognised temporary differences	**–**	(19)
Unrecognised tax losses	**–**	2,430
Overprovision in prior year	**–**	(3,736)
Others	**–**	22
Tax expenses (credit) for the year	**224**	(3,659)

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2009 includes a loss of HK$12,664,000 (2008: HK$61,839,000) which has been dealt with in the financial statements of the Company.

13. DISCONTINUED OPERATIONS

Disposal of the server-based technology business

In December 2008, the Company and Mr. Mo Wai Ming, Lawrence, an executive director of the Company resigned on 19 January 2009, entered into an agreement relating to the disposal of the Group's server-based technology business, which involves the provision of language communication software and platforms in Hong Kong. The disposal was completed in January 2009.

The combined results of the above mentioned discontinued operation which included the water supply, organic fertilisers and server-based technology businesses for the years ended 31 December 2009 and 2008 are summarised as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Turnover	**172**	9,059
Cost of sales/service rendered	**(86)**	(4,671)
Gross profit	**86**	4,388
Other income	**–**	1,023
Gain on disposal of subsidiaries	**4,703**	5,549
Administrative and other expenses	**(115)**	(56,128)
Profit (Loss) before taxation	**4,674**	(45,168)
Income tax expense	**–**	3,736
Profit (Loss) for the year	**4,674**	(41,432)
Minority interests	**–**	4,367
Net profit (loss) attributable to discontinued operations	**4,674**	(37,065)
Net cash flows		
Operating activities	**–**	(16,009)
Investing activities	**–**	(1,806)
Financing activities	**–**	(452)
Total cash flows	**–**	(18,267)

The server-based technology business has been classified and accounted for at 31 December 2008 as assets of a disposal group classified as held for sale.

14. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the year (2008: Nil).

15. (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:

	2009 HK$'000	2008 HK$'000
For continuing and discontinued operations		
Loss attributable to equity holders of the Company	**(8,767)**	(66,159)
For continuing operations		
Loss attributable to equity holders of the Company	**(13,441)**	(29,094)
For discontinued operations		
Profit (Loss) attributable to equity holders of the Company	**4,674**	(37,065)

	Number of shares	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year	**1,479,038,987**	1,330,375,080

Diluted (loss) earnings per share for 2009 and 2008 is the same as basic (loss) earnings per share as the potential ordinary shares under the convertible bonds and share options have anti-dilutive effects on the basic (loss) earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Water pipelines HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost									
At 1 January 2008	–	412	8,532	–	611	–	909	22	10,486
Arising on acquisition of subsidiaries	10,336	–	19,521	29,252	259	693	351	–	60,412
Additions	549	62	560	239	63	320	9	4	1,806
Disposal of subsidiaries	(10,885)	(250)	(28,773)	(29,491)	(568)	(1,013)	–	(3)	(70,983)
Written-off	–	(176)	(376)	–	(53)	–	–	–	(605)
Transferred from construction in progress	–	–	24	–	–	–	–	(24)	–
Exchange realignment	–	14	512	–	18	–	–	1	545
Reclassified as held for sale	–	(62)	–	–	(320)	–	(929)	–	(1,311)
At 31 December 2008 and 1 January 2009	**–**	**–**	**–**	**–**	**10**	**–**	**340**	**–**	**350**
Additions	**–**	**–**	**–**	**–**	**–**	**–**	**15**	**–**	**15**
Reclassification	**–**	**–**	**–**	**–**	**(10)**	**–**	**10**	**–**	**–**
At 31 December 2009	**–**	**–**	**–**	**–**	**–**	**–**	**365**	**–**	**365**

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Water pipelines HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Accumulated depreciation									
At 1 January 2008	–	176	70	–	317	–	853	–	1,416
Arising on acquisition of subsidiaries	57	–	535	1,317	18	3	74	–	2,004
Depreciation	122	29	1,306	976	79	53	100	–	2,665
Disposal of subsidiaries	(179)	(24)	(1,886)	(2,293)	(99)	(56)	–	–	(4,537)
Written-off	–	(176)	(29)	–	(11)	–	–	–	(216)
Exchange realignment	–	1	4	–	2	–	–	–	7
Reclassified as held for sale	–	(6)	–	–	(299)	–	(888)	–	(1,193)
At 31 December 2008 and 1 January 2009	**–**	**–**	**–**	**–**	**7**	**–**	**139**	**–**	**146**
Depreciation	**–**	**–**	**–**	**–**	**–**	**–**	**119**	**–**	**119**
Reclassification	**–**	**–**	**–**	**–**	**(7)**	**–**	**7**	**–**	**–**
At 31 December 2009	**–**	**–**	**–**	**–**	**–**	**–**	**265**	**–**	**265**
Net book value									
At 31 December 2009	**–**	**–**	**–**	**–**	**–**	**–**	**100**	**–**	**100**
At 31 December 2008	–	–	–	–	3	–	201	–	204

17. INTERESTS IN SUBSIDIARIES

		Company	
	Note	**2009** **HK$'000**	2008 HK$'000
Unlisted shares, at cost		**1**	3,162
Impairment loss		**–**	(2,162)
		1	1,000
Due from subsidiaries	*17(a)*	**147,656**	124,000
Impairment loss		**(41,413)**	(64,500)
		106,243	59,500
		106,244	60,500

Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities	Place of operations
Rise Assets Limited	British Virgin Islands	US$1	100%	–	Investment holding	Hong Kong
Wonder Link Limited	British Virgin Islands	US$1	–	100%	Investment holding	Hong Kong
Start Bright Limited	British Virgin Islands	US$200	–	51%	Investment holding	Hong Kong
Huge Step Management Limited	British Virgin Islands	US$100	–	51%	Investment holding	Hong Kong
Palm Learning Co. Limited	Hong Kong	HK$1	–	51%	Inactive	Hong Kong

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company are as follows: *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities	Place of operations
Smart Education Company Limited	Hong Kong	HK$100	–	51%	Development and provision of e-Learning services	Hong Kong
Cheer Plan Limited	British Virgin Islands	US$1	–	100%	Investment holding	Hong Kong
Far Glory Limited*	British Virgin Islands	US$10,900	–	51%	Investment holding	Hong Kong
Great Wave Limited*	British Virgin Islands	US$1	–	51%	Investment holding	Hong Kong
Sky Asia Investments Limited*	Hong Kong	HK$1	–	51%	Investment holding	Hong Kong
Beijing LianYiHuiZhong Technology Company Limited*	The PRC	HK$2,000,000	–	51%	Distribution of copyright-protected items	The PRC
Sheer Success Limited	British Virgin Islands	US$100	–	51%	Investment holding	Hong Kong
DG Media Limited *(formerly known as Success Mark Investments Limited)*	Hong Kong	HK$1,000,000	–	51%	Inactive	Hong Kong

* Upon the completion of the acquisitions in 2009 as set out in note 35 to the financial statements, the Group held 51% (2008: 20.26%) equity interest in Far Glory Limited and its subsidiaries.

17(a)DUE FROM SUBSIDIARIES

The amounts due are unsecured, interest-free and have no fixed repayment term. The carrying values of the amounts due from subsidiaries approximate to their fair values.

18. INTERESTS IN ASSOCIATES

	Group	
	2009	2008
	HK$'000	HK$'000
Share of net assets	**–**	5,120
Goodwill	**–**	60,108
	–	65,228

The interests in associates in 2008 represented the Group's 20.26% equity interest in Far Glory Limited ("Far Glory") and its subsidiaries ("Far Glory Group"). Upon the completion of the acquisitions of additional interests in Far Glory Group during 2009 as set out in note 35 to the financial statements, Far Glory Group has become a 51% owned subsidiary of the Group.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

		Group	
		2009	2008
	Note	**HK$'000**	HK$'000
Share of net liabilities		**–**	–
Due from jointly controlled entities	*19(a)*	**9,455**	–
		9,455	–

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Particulars of the jointly controlled entities of the Company are as follows:

Name of jointly controlled entity	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity indirectly attributable to the Company	Principal activities	Place of operations
Shinning Day Limited	British Virgin Islands	US$4	25.5% (2008: 10.1%)	Investment holding	Hong Kong
Golden Sino Limited	Hong Kong	HK$1,000	25.5% (2008: 10.1%)	Investment holding	Hong Kong
Beijing YiLaiShen Technology Company Limited	The PRC	HK$10,000,000	25.5% (2008: 10.1%)	Provision of copyright management solution and the related consultancy services and the digital content licensing solution	The PRC

The following table illustrates the summarised financial information of the jointly controlled entities extracted from their unaudited financial statements as of and for the year ended 31 December 2009:

	Summary financial information HK$'000	Group's effective interest HK$'000
Financial position at end of the reporting period		
Total non-current assets	**478**	122
Total current assets	**3,115**	796
Total liabilities	**(11,202)**	(2,862)
Total deficits	**(7,609)**	(1,944)*
Operating results for the year		
Revenue	**7**	2
Loss for the year	**(4,638)**	(1,185)*

* The Group's share of net liabilities is limited to zero.

19(a) DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts due are unsecured, interest-free and have no fixed repayment term. The carrying values of the amounts due from jointly controlled entities approximate their fair values.

20. GOODWILL

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated statement of financial position, arising from the acquisition of subsidiaries, are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
At beginning of the reporting period	**19,826**	51,207
Cancellation of convertible bonds and earn-out convertible bonds	**(9,075)**	–
Acquisition of subsidiaries	**98,545**	55,386
Impairment losses	**–**	(36,000)
Disposal of subsidiaries	**–**	(50,767)
At end of the reporting period	**109,296**	19,826
At end of the reporting period, at cost	**109,296**	19,826

The cancellation of convertible bonds with nominal value of approximately HK$915,000 and earn-out convertible bonds of HK$8,160,000 to be issued was attributable to the shortfall in the profit guarantee of Start Bright Limited, details of which has been set out in notes 27(i) and 28 to the financial statements respectively.

20. GOODWILL *(Continued)*

Goodwill has been allocated to the Group's cash generating units ("CGU") identified according to the country of operations and business segments as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
e-Learning business, Hong Kong	**10,751**	19,826
e-Licensing business, Beijing		
Copyright management solution business	**83,028**	–
Distribution of copyright-protected items business	**15,517**	–
	109,296	19,826

Impairment test on goodwill

The Group appointed a professional valuer to perform an appraisal of the market value of the e-Licensing business as at 31 December 2009. The recoverable amount of the CGUs of the e-Licensing business has been determined based on a value-in-use calculation for its CGUs, namely the copyright management solution business and distribution of copyright-protected items business. That calculations uses cash flow projections based on financial budgets approved by the board of directors covering a 3-year period. Cash flows beyond the 3-year period has been extrapolated using a 2% long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

The recoverable amounts of the CGU of e-Learning business has been determined based on value-in-use calculations using cash flow projections based on the financial budgets approved by the board of directors covering a 5-year period for the CGU. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The long-term growth rate does not exceed the respective long-term growth rate for the business in which the CGU operates.

20. GOODWILL *(Continued)*

Key assumptions used for value-in-use calculations are as follows:

	e-Learning		e-Licensing			
			Copyright management solution business		Distribution of copyright-protected items business	
	2009	2008	**2009**	2008	**2009**	2008
Gross margin	**50%-76%**	30% - 80%	**97%-99%**	–	**98%-99%**	–
Average growth rate	**6%-10%**	24% - 73%	**10%**	–	**10%**	–
Long-term growth rate	**–**	1% - 8%	**2%**	–	**2%**	–
Discount rate	**11%**	10.5%	**20.5%**	–	**20.4%**	–

Management determined the budgeted gross profit margin based on past performance and its expectation of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

Apart from the considerations described above in determining the value-in-use of CGUs, the Company's management is not aware of any other probable changes that would necessitate changes in the key assumptions.

The recoverable amounts of the CGUs exceed their carrying amounts based on value-in-use calculations. Accordingly, the goodwill was not impaired during the year.

21. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Finished goods	**143**	–

22. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables from third parties	**1,978**	731	**–**	–
Deposits, prepayments and other receivables	**9,696**	742	**212**	241
	11,674	1,473	**212**	241

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$1,650,000 (2008: HK$142,000), 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 is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Current	**328**	589
Less than 1 month past due	**610**	4
1 month to 2 months past due	**598**	97
Over 3 months past due	**442**	41
	1,650	142
	1,978	731

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 third parties of approximately HK$3,034,000, which are unsecured, interest-free and have no fixed repayment term.

23. DUE FROM A DIRECTOR OF A SUBSIDIARY/A DIRECTOR

The amount due from a director of a subsidiary is unsecured, interest-free and has no fixed repayment term. The carrying value of the amount due from a director of a subsidiary approximates its fair values.

	Group			Company		
Name of director	**Balance at 31 December 2009 HK$'000**	Balance at 1 January 2009 HK$'000	Maximum outstanding during the year HK$'000	**Balance at 31 December 2009 HK$'000**	Balance at 1 January 2009 HK$'000	Maximum outstanding during the year HK$'000
Ms Au Shui Ming, Anna	**–**	27	27	**–**	20	20
Mr Hsu Tung Chi, Chris, a director of a subsidiary	**1,585**	–	1,585	**–**	–	–
	1,585	*27	1,612	**–**	20	20

* Included amount due from a director of HK$7,000 that was classified as asset of a disposal group held for sale as at 31 December 2008.

24. OTHER PAYABLES

	Group		Company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Deferred income	**2,390**	1,607	**–**	–
Accrued charges and other payables	**669**	809	**306**	692
	3,059	2,416	**306**	692

25. LOANS FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

Loans from minority shareholders of a subsidiary are unsecured, interest-free and have no fixed repayment terms. The carrying values of the loans from minority shareholders of a subsidiary approximate to their fair values.

26. PROMISSORY NOTE

	Group HK$'000	Company HK$'000
At 1 January 2008	4,467	–
Issued during the year	22,840	22,840
Repaid during the year	(23,567)	(19,100)
At 31 December 2008 and at 1 January 2009	3,740	3,740
Repaid during the year	(3,740)	(3,740)
At 31 December 2009	**–**	**–**

In June 2008, a promissory note with principal amount of HK$7,240,000 was issued by the Company as partial consideration for the acquisition of the 51% equity interest in Start Bright Limited. This promissory note was interest-bearing at 1% per annum and had a fixed term of three years from the date of issue. This promissory was partially repaid during the year ended 31 December 2008 and the remaining balance was fully repaid during the year.

27. CONVERTIBLE BONDS

The convertible bonds recognised in the at the end of the reporting period are calculated as follows:

	Note	Group and Company	
		2009	2008
		HK$'000	HK$'000
Liability component at 1 January		**22,735**	–
Nominal value of convertible bonds issued	*(iii)*	**26,903**	35,000
Equity component		**(5,826)**	(3,453)
Liability component at the issue date		**21,077**	31,547
Redemption of the convertible bonds	*(ii)*	**(16,801)**	(9,383)
Cancellation of the convertible bonds	*(i)*	**(861)**	–
Conversion of the convertible bonds	*(i)*	**(1,961)**	–
Interest expenses		**923**	718
Interest paid/payable		**(217)**	(147)
Liability component at 31 December		**24,895**	22,735
Portion classified as non-current		**(24,895)**	(22,735)
Current portion		**–**	–
Equity component at 1 January		**2,836**	–
Convertible bonds issued	*(iii)*	**5,826**	3,453
Redemption of the convertible bonds	*(ii)*	**(2,075)**	(617)
Cancellation of the convertible bonds	*(i)*	**(47)**	–
Conversion of the convertible bonds	*(i)*	**(280)**	–
Equity component at 31 December		**6,260**	2,836

27. CONVERTIBLE BONDS *(Continued)*

(i) In June 2008, upon the completion of acquisition of 51% equity interest in Start Bright Limited, the Company had issued 1% convertible bonds with a nominal value of HK$3,000,000 to the independent vendor as part of the consideration. The convertible bonds will be matured on the third anniversary from the date of issue.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the convertible bonds into shares at conversion price of HK$0.18, subject to adjustments, for the period commencing from (1) the date when the Guaranteed Profit (<i> the actual audited consolidated net profit after tax and extraordinary or exceptional items of Start Bright Limited and its subsidiaries for the year ending 31 August 2009 ("Actual Profit") will not be less than HK$3,000,000, or <ii> provided that the Actual Profit is equal to or greater than HK$2,000,000 but less than HK$3,000,000, the average of the actual audited consolidated net profits after tax and extraordinary or exceptional items of Start Bright Limited and its subsidiaries for the years ending 31 August 2009 and 2010 ("Average Actual Profit") will not be less than HK$3,000,000) has been fulfilled or (2) if there is any shortfall between the Actual Profit or the Average Actual Profit and Guaranteed Profit, the date when the Company is fully compensated for any shortfall up to the maturity date.

During the year, part of the convertible bonds with a nominal amount of HK$915,460 was cancelled due to shortfall in Actual Profit over the Guaranteed Profit, and the remaining convertible bonds with nominal amount of HK$2,084,540 were converted into shares of the Company.

27. CONVERTIBLE BONDS *(Continued)*

(ii) Upon completion of the acquisition of 12% equity interest in Far Glory Group in June 2008, the Company had issued 1% convertible bonds with nominal value of HK$18,000,000 (the "First Convertible Bond") and HK$4,000,000 (the "Second Convertible Bond"), respectively. The convertible bonds will be matured of the third anniversary from the date of issue.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the First Convertible Bond of HK$18,000,000, which had been delivered to the vendor upon completion, into shares at conversion price of HK$0.18, subject to adjustments, from the date of issue up to the maturity date.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the Second Convertible Bond of HK$4,000,000, which had been delivered to the Group upon completion as escrow until the fulfillment of the Average Guaranteed Profit (the average of the audited consolidated net profits after tax and extraordinary or exceptional items of Far Glory and its subsidiaries for the years ending 31 December 2009 and 2010 will not be less than HK$15,000,000), into shares at conversion price of HK$0.18, subject to adjustments, for the period commencing from (1) the date when the Average Guaranteed Profit has been fulfilled or (2) if there is any shortfall between the actual average of the audited consolidated net profits after tax and extraordinary or exceptional items of Far Glory and its subsidiaries for the years ending 31 December 2009 and 2010 and the Average Guaranteed Profit, the date when the Group is fully compensated by the vendor for any shortfall up to the maturity date.

During the year, the convertible bonds with nominal value of HK$18,000,000 were early redeemed in full.

(iii) Upon completion of the acquisition of 21.57% equity interest in Far Glory Group in December 2009, the Company had issued zero coupon convertible bonds with nominal value of HK$26,903,000 to the vendor as part of the consideration. The convertible bonds will be matured on the fifth anniversary from the date of issue.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the convertible bonds into shares at conversion price of HK$0.094, subject to adjustments, from the date of issue up to the maturity date.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible bonds. The fair value of the liability component was calculated using a market interest rate of 5% (2008: 5%). The residual amount, representing the value of the equity conversion component, has been included in the convertible bonds reserve.

28. OTHER PAYABLES

Included in other payables as of 31 December 2009 and 2008 was an amount of HK$18,000,000 being the partial consideration for the acquisition of 12% equity interest in Far Glory Group, representing the extra convertible bond that shall be issued by the Company if the Average Actual Profit of Far Glory Group is not less than HK$25,000,000. This amount is unsecured, interest-free and shall be payable by the Company subsequent to the year ended 31 December 2010. For details of such convertible bond, please refer to the circular of the Company dated 30 May 2008.

The remaining HK$8,160,000 as of 31 December 2008 represented the partial consideration for the acquisition of the 51% equity interest in Start Bright Limited, which was the earn-out convertible bond that shall be issued by the Company if the Actual Profit of Start Bright Limited and its subsidiaries is equal to or more than HK$5,000,000, or provided that the Actual Profit is equal to or greater than HK$4,000,000 but less than HK$5,000,000 and the Average Actual Profit is equal to or greater than HK$5,000,000. The amount was fully written off due to shortfall in the Actual Profit of Start Bright Limited over the Guaranteed Profit. For details of such cancellation, please refer to the announcement of the Company dated 30 November 2009.

29. SHARE CAPITAL

	Notes	**Number of shares**	**Amount HK$'000**
Authorised:			
At 1 January 2008 and 2009 ordinary shares of HK$0.05 each		2,000,000,000	100,000
Increase in authorised share capital	*(i)*	2,000,000,000	100,000
At 31 December 2009 ordinary shares of HK$0.05 each		4,000,000,000	200,000
Issued and fully paid:			
At 1 January 2008 and 31 December 2008, ordinary shares of HK$0.05 each		1,330,375,080	66,519
Issue of new shares	*(ii)*	273,000,000	13,650
Issue of consideration shares	*(iii)*	204,329,787	10,216
Conversion of convertible bonds	*(iv)*	11,580,776	579
Shares issued upon exercise of share options	*(v)*	121,300,000	6,065
At 31 December 2009 ordinary shares of HK$0.05 each		**1,940,585,643**	**97,029**

29. SHARE CAPITAL *(Continued)*

Notes:

(i) At an extraordinary general meeting held on 11 December 2009, the authorised share capital of the Company was increased to HK$200,000,000 by creation of an additional 2,000,000,000 ordinary shares of HK$0.05 each.

(ii) In October 2009, a total number of 273,000,000 ordinary shares at a price of HK$0.105 per share were issued via placing. The Company raised proceeds of HK$27,948,000, net of issuing expenses, to finance the Group's working capital.

(iii) In September 2009, 146,329,787 ordinary shares of the Company were issued at a price of HK$0.094 per share, totalling of HK$13,755,000 to a third party for the acquisition of 9.17% equity interest in Far Glory.

In December 2009, 58,000,000 ordinary shares of the Company were issued at a price of HK$0.094 per share, totally of HK$32,355,000 to Daily Technology Company Limited as part of the consideration for the acquisition of 21.57% equity interest in Far Glory.

(iv) During the year, the bondholders converted the convertible bonds with nominal value of HK$2,084,540 to 11,580,776 ordinary shares of the Company at the exercise price of HK$0.18 per share. Details of which are set out in note 27(i) to the financial statements.

(v) Details of the Company's share option scheme and the movements of share options under the scheme are included in note 31 to the financial statements.

All shares issued in 2009 rank pari passu with the existing shares in all respects.

30. RESERVES

Company

	Share premium HK$'000	Contribution surplus HK$'000	Employee share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008	68,861	3,047	–	–	(39,049)	32,859
Issue of convertible bonds	–	–	–	3,453	–	3,453
Redemption of convertible bonds	–	–	–	(617)	–	(617)
Issue of new share expenses	(253)	–	–	–	–	(253)
Open offer expenses	(505)	–	–	–	–	(505)
Employee share-based payment	–	–	4,354	–	–	4,354
Total comprehensive loss for the year	–	–	–	–	(61,839)	(61,839)
At 31 December 2008	68,103	3,047	4,354#	2,836	(100,888)	(22,548)

30. RESERVES *(Continued)*

	Note	Share premium HK$'000	Contribution surplus HK$'000	Employee share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009		68,103	3,047	4,354	2,836	(100,888)	(22,548)
Issue of consideration shares	*29(iii)*	8,991	–	–	–	–	8,991
Issue of convertible bonds	*27(iii)*	–	–	–	5,826	–	5,826
Conversion of convertible bonds	*27(i)*	1,662	–	–	(280)	–	1,382
Cancellation of convertible bonds	*27(i)*	–	–	–	(47)	–	(47)
Redemption of convertible bonds	*27(ii)*	–	–	–	(2,075)	876	(1,199)
Issue of new shares	*29(ii)*	15,015	–	–	–	–	15,015
Share issue expenses		(717)	–	–	–	–	(717)
Employee share-based payment	*31(i)*	–	–	6,571	–	–	6,571
Exercise of share options	*31(ii)*	7,772	–	(3,280)	–	–	4,492
Total comprehensive loss for the year		–	–	–	–	(12,664)	(12,664)
At 31 December 2009		100,826	3,047	7,645#	6,260	(112,676)	5,102

\# Included in employee share-based payment reserve was an amount of HK$1,928,000 relating to the share options lapsed in 2008 due to resignation of certain employees.

Note:

(i) Pursuant to the Companies Law (2004 Revision) of the Cayman Islands ("Companies Law of the Cayman Islands"), share premium of the Company is available for distribution to shareholders subject to certain requirements of Companies Law of the Cayman Islands.

(ii) The contributed surplus of the Company arose from the Group Reorganisation which took place in 2003. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' fund of the subsidiaries acquired during the Group Reorganisation.

(iii) Employee share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation as described in notes 3 and 31 to the financial statements.

(iv) The Company did not have reserves available for distribution to the equity holders of the Company as at 31 December 2009 (2008: Nil).

31. SHARE OPTION SCHEME

On 24 January 2003, a share option scheme was adopted by the Company pursuant to a written resolution of the Company (the "Scheme").

The purpose of the Scheme is to provide eligible employees with 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. The Board may, at its discretion, invite any full-time employee of the Company, including any executive and non-executive directors of the Company, or any subsidiaries of the Company to take up options to subscribe for shares of the Company. The total number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the Scheme and any other share option scheme adopted by the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Options might be granted at a consideration of HK$1. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotation on the date of the offer grant; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer grant; and (iii) the nominal value of the shares.

Movements in the number of share options outstanding during the year are as follows:

		Number of options	
	Notes	**2009**	2008
At 1 January		**67,300,000**	–
Granted during the year	*(i)*	**185,000,000**	103,600,000
Exercised during the year	*(ii)*	**(121,300,000)**	–
Lapsed during the year		**–**	(36,300,000)
At 31 December		**131,000,000**	67,300,000

31. SHARE OPTION SCHEME *(Continued)*

Notes:

(i) On 2 April 2009, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1 for each lot of share options to subscribe for an aggregate of 55,000,000 shares under the Scheme at an exercise price of HK$0.059 per share. These options were accepted by the option holders in April 2009.

On 16 December 2009, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1 for each lot of share options to subscribe for an aggregate of 130,000,000 shares under the Scheme at an exercise price of HK$0.177 per share. These options were accepted by the option holders in December 2009.

(ii) During the year, the option holders exercised the share option to subscribe for an aggregate of 121,300,000 ordinary shares of the Company at exercise prices ranged from HK$0.059 to HK$0.151 per share.

Details of share options granted:

Categories of grantees	Date of grant	Exercise period	Exercise price per share HK$	Number of options 2009	2008
Directors	21/12/2007	18/1/2008 to 20/12/2017	0.151	**–**	12,300,000
	28/8/2008	16/9/2008 to 27/8/2018	0.101	**–**	24,000,000
	2/4/2009	2/4/2009 to 1/4/2014	0.059	**12,000,000**	–
	16/12/2009	30/12/2009 to 15/12/2011	0.177	**50,000,000**	–
Employees	21/12/2007	18/1/2008 to 20/12/2017	0.151	**–**	36,300,000
	28/8/2008	16/9/2008 to 27/8/2018	0.101	**–**	31,000,000
	2/4/2009	2/4/2009 to 1/4/2014	0.059	**43,000,000**	–
	16/12/2009	30/12/2009 to 15/12/2011	0.177	**80,000,000**	–
				185,000,000	103,600,000
Options held by employee lapsed				**–**	(36,300,000)
				185,000,000	67,300,000

31. SHARE OPTION SCHEME *(Continued)*

Date of grant	Exercise period	Exercise price	Fair value at grant date
		HK$	HK$
21/12/2007	18/1/2008 to 20/12/2017	0.151	0.0531
28/8/2008	16/9/2008 to 27/8/2018	0.101	0.0323
2/4/2009	2/4/2009 to 1/4/2014	0.059	0.0161
16/12/2009	30/12/2009 to 15/12/2011	0.177	0.0437

The binomial model has been used to estimate the fair value of the options. The variances and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Inputs to the model are as follows:

	Date of grant			
	21/12/2007	28/8/2008	2/4/2009	16/12/2009
Share price at grant date	0.151	0.100	0.059	0.175
Exercise rice	0.151	0.101	0.059	0.177
Option life	10 years	10 years	5 years	2 years
Expected volatility	67.285%	62.695%	116.69%	80%
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	3.332%	3.000%	1.578%	0.414%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

32. RETIREMENT BENEFITS SCHEME

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The assets of the MPF Scheme are held separately in provident fund managed by independent trustee. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earnings of HK$20,000.

The Group's subsidiaries in the PRC also participated in defined contribution retirement schemes covering its full-time PRC employees. The schemes are administered by the relevant government authorities which undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group's PRC subsidiaries.

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK$74,000 (2008: HK$298,000).

33. DEFERRED TAXATION

(a) The movement in the Group's deferred tax liabilities during the year is as follows:

	Depreciation allowance	
	2009	2008
	HK$'000	HK$'000
At 1 January	**33**	–
Deferred tax (credited) charged to consolidated statement of comprehensive income	**(17)**	33
At 31 December	**16**	33

(b) Unrecognised deferred tax assets arising from

Tax losses of HK$701,000 (2008: HK$Nil) arising from the Group's PRC operations can be used to offset against future taxable profits of the respective PRC subsidiaries for a maximum of 5 years. The Group has not recognised deferred tax asset in respect of tax losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

33. DEFERRED TAXATION *(Continued)*

(b) Unrecognised deferred tax assets arising from *(Continued)*

The unrecognised tax losses arising in the PRC at the end of the reporting period will expire as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Year of expiry		
2012	**28**	–
2013	**310**	–
2014	**363**	–
At balance sheet date	**701**	–

34. OPERATING LEASE COMMITMENTS

The Group leases certain premises under operating lease commitments. Leases for premises are negotiated for terms ranging from 1 to 2 years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Group		
Within one year	**–**	527
In the second to fifth years inclusive	**–**	300
	–	827

35. ACQUISITION OF SUBSIDIARIES

In April 2008, Cheer Plan Limited ("Cheer Plan"), a wholly-owned subsidiary of the Company, entered into an agreement with Far Glory. Pursuant to the agreement, 900 new shares (the "Subscription Shares") of Far Glory were allotted to Cheer Plan at a consideration of HK$20,250,000. The Subscription Shares represent approximately 8.26% of the entire issued share capital of Far Glory as enlarged by the allotment and issue of the Subscription Shares. The completion took place in April 2008 and the consideration for the Subscription Shares was settled by cash.

In May 2008, Cheer Plan entered into another agreement with Mr. Hsu Tung Chi, a brother of the Company's executive director, Mr. Hsu Tung Sheng, as vendor and Mr. Hsu Tung Sheng, as guarantor, both are shareholders of Far Glory, to acquire additional 12% of the issued share capital of Far Glory at a maximum total consideration of HK$45,000,000, of which HK$5,000,000 to be settled by cash and HK$40,000,000 by issue of convertible bonds. The completion took place in June 2008.

In August 2009, Cheer Plan entered into another agreement with an independent third party to acquire additional 9.17% of the total issued share capital of Far Glory at a total consideration of HK$13,755,000 to be settled by the allotment of the Company, shares at the issue price upon completion. The acquisition was completed in September 2009.

In October 2009, Cheer Plan entered into another agreement with Daily Technology Company Limited, a company which is owned by the brother of the Company's executive director, Mr. Hsu Tung Chi, as vendor and Mr. Hsu Tung Chi, as guarantor, both are shareholders of Far Glory, to acquire additional 21.57% of the issued capital of Far Glory at a total consideration of HK$32,355,000, of which HK$5,452,000 to be settled by the allotment of the Company's shares at the issue price upon the completion and HK$26,903,000 by issue of the Company's convertible bonds to be issued by the Company. The acquisition was completed in December 2009.

Far Glory conducted its business through two foreign enterprises established in the PRC, namely Beijing LianYiHuiZhong Technology Company Limited (北京聯易匯眾科技有限公司) ("BLTC") and Beijing YiLaiShen Technology Company Limited (北京易來申科技有限公司) ("Beijing e-License"). BLTC is 100% owned by Far Glory and will be principally engaged in the distribution of copyright-protected items in the PRC. Beijing e-License is 50% beneficially owned by Far Glory and will be principally engaged in the provision of copyright management solution and the related consultancy services.

Upon the completion of the above acquisitions and as at end of the reporting period, the Group held 51% equity interest in Far Glory.

35. ACQUISITION OF SUBSIDIARIES *(Continued)*

The fair value of the identifiable assets and liabilities acquired as at the date of acquisition, which approximated their carrying value, and goodwill on acquisition are as follows:

	Fair value recognised on acquisitions	
	2009	2008
	HK$'000	HK$'000
Net assets acquired		
Property, plant and equipment	**–**	58,408
Prepaid land lease payments	–	744
Due from jointly controlled entities	**9,455**	–
Due from a director of a subsidiary	**1,585**	–
Trade and other receivables	**7,773**	1,900
Bank balances and cash	**6,185**	19,853
Trade and other payables	**(39)**	(37,326)
Deferred government grants	**–**	(24,946)
Due to intermediate holding company	**(11)**	–
Minority interests	**(12,224)**	(6,019)
	12,724	12,614
Goodwill on acquisition	**98,545**	55,386
	111,269	68,000
Satisfied by:		
Cash consideration	**–**	24,000
Convertible bonds	**26,903**	–
Promissory notes	**–**	22,840
Consideration shares	**5,452**	21,160
Transferred from interests in associates	**78,914**	–
	111,269	68,000

35. ACQUISITION OF SUBSIDIARIES *(Continued)*

An analysis of the net inflow (outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2009 **HK$'000**	2008 HK$'000
Cash consideration	**–**	(24,000)
Bank balances and cash acquired	**6,185**	19,853
Net inflow (outflow) of cash and cash equivalents	**6,185**	(4,147)

No revenue and profit of the acquired subsidiaries since the date of acquisition have been included in the Company's consolidated statement of comprehensive income for the year as the subsidiaries have been acquired in late December 2009.

36. DISPOSAL OF SUBSIDIARIES

In December 2008, the Group entered into an agreement with Mr. Mo Wai Ming, Lawrence, an executive director of the Company resigned on 19 January 2009 for the disposal of the entire equity interest in KanHan Technologies Inc., at a consideration of HK$1,000,000. The disposal was completed in January 2009.

36. DISPOSAL OF SUBSIDIARIES *(Continued)*

The carrying values of the identifiable assets and liabilities disposed of as at the date of disposal are as follows:

	2009 **HK$'000**	2008 HK$'000
Net assets disposed of:		
Property, plant and equipment	**118**	66,446
Prepaid land lease payments	**–**	735
Inventories	**37**	1,771
Trade and other receivables	**1,894**	22,009
Bank balances and cash	**239**	18,790
Due from a director	**7**	–
Trade and other payables	**(4,772)**	(54,452)
Financial assistance from government	**(1,295)**	(24,672)
Minority interests	**–**	(20,202)
	(3,772)	10,425
Release of exchange reserve	**69**	(1,741)
Release of goodwill	**–**	50,767
Gain on disposal of subsidiaries	**4,703**	5,549
Consideration	**1,000**	65,000
Satisfied by:		
Cash	**1,000**	27,500
Promissory note	**–**	37,500
	1,000	65,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2009 **HK$'000**	2008 HK$'000
Cash consideration	**1,000**	27,500
Deposit received in 2008	**(200)**	–
Bank balances and cash in subsidiaries disposed of	**(239)**	(18,790)
Net inflow of cash and cash equivalents	**561**	8,710

37. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements during the year, the Group had the following transactions with related parties:

		Group	
		2009	2008
Related party relationship	**Nature of transaction**	**HK$'000**	HK$'000
Key management personnel, (excluding directors)	Salaries, allowances and benefits in kind	**100**	–
	Employee share-based payment	**971**	–
		1,071	–
Ex-shareholder of a subsidiary	Consultancy fee	**390**	–

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise convertible bonds, share options and bank balances and cash. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade and other receivables and other payables, which arise directly from its business activities.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables			
	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets as per consolidated statement of financial position				
Trade and other receivables	**11,674**	1,473	**212**	241
Due from a director of a subsidiary/ a director	**1,585**	20	**–**	20
Bank balances and cash	**29,052**	12,109	**20,876**	10,377
Total	**42,311**	13,602	**21,088**	10,638

	Financial liabilities at amortised cost			
	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities as per consolidated statement of financial position				
Financial liabilities included in other payables	**3,059**	2,416	**306**	692
Loans from to minority shareholders of a subsidiary	**490**	–	**–**	–
Promissory note	**–**	3,740	**–**	3,740
Convertible bonds	**24,895**	22,735	**24,895**	22,735
Other payables	**18,000**	26,160	**–**	–
Total	**46,444**	55,051	**25,201**	27,167

The main risks arising from the Group's financial instruments are credit risk, market risk (including interest rate risk and currency risk) and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on the Group's risk management and limits the Group's exposure to these risks to a minimum.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group resulting in a loss to the Group. The Group's credit risk is primarily attributable to trade receivables and bank balances.

A detailed discussion of the Group's credit risk in respect of trade receivables is set out in note 22 to the financial statements. The Group only provides services to customers with recognised, creditworthy third parties. Management closely monitors all outstanding debts and reviews the collectibility of trade debtors periodically. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Group does not hold any collateral over these assets.

At the end of the reporting period, 17% (2008:7%) and 35% (2008: 31%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

The Group's bank balances are placed with credit-worthy banks in Hong Kong and in the PRC.

Market risk

a. *Currency risk*

Most of the Group business transactions are conducted in Hong Kong dollars. However, the Group has a net investment in a subsidiary in the PRC, the functional currency of which is in Renminbi.

The Group considers the risk exposure to foreign currency fluctuation would be in line with the gradual appreciation of Renminbi and the PRC government takes prudent and gradual measures against the appreciation of Renminbi.

Sensitivity analysis

At the end of the reporting period, if Renminbi had weakened/strengthened by 10% with all other variables held constant, the Group's equity reserves as at the end of the reporting period would have been HK$138,000 (2008:HK$Nil) lower/higher, mainly as a result of foreign exchange losses/gains on translation of Renminbi-denominated net investment in a subsidiary in the PRC, but there would be no impact on the consolidated statement of comprehensive income for the year.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at the date, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk *(Continued)*

b. *Interest rate risk*

The Group's exposure to cash flow interest rate risk mainly arises from the fluctuation of the prevailing market interest rate on the bank balances. However, the management considers the Group's exposure to such interest rate risk is not significant as bank balances are all short-term in nature. No sensitivity analysis is prepared as the fluctuation and impact is considered immaterial.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible bonds.

The undiscounted contractual maturity profile of the Group's financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle the financial liabilities at the end of the reporting period is summarised below:

	Group				Company			
	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
At 31 December 2009								
Other payables	**3,059**	**–**	**18,000**	**21,059**	**306**	**–**	**–**	**306**
Loans from minority shareholders of a subsidiary	**490**	**–**	**–**	**490**	**–**	**–**	**–**	**–**
Convertible bonds	**–**	**–**	**30,903**	**30,903**	**–**	**–**	**30,903**	**30,903**
	3,549	**–**	**48,903**	**52,452**	**306**	**–**	**30,903**	**31,209**

	Group				Company			
	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
At 31 December 2008								
Other payables	2,216	200	26,160	28,576	692	–	–	692
Promissory note	–	–	3,740	3,740	–	3,740	–	3,740
Convertible bonds	–	–	25,000	25,000	–	–	25,000	25,000
	2,216	200	54,900	57,316	692	3,740	25,000	29,432

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value

The carrying amounts of the Group's and the Company's financial assets and financial liabilities carried at other than fair value are not materially different from their fair value as at 31 December 2009.

39. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 2008.

40. POST BALANCE SHEET EVENTS

i) In January 2010, the Group entered into a ten-year full technical collaboration agreement with China Audio and Video Copyright Association. The parties will work together to provide e-License digital copyrights management system to major service providers of the telecommunication and the Internet and other digital media service providers in the PRC.

ii) In February 2010, the Company entered into an agreement with Far Glory to grant a revolving facility by way of a loan agreement of up to a maximum amount of HK$9,500,000 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 Far Glory Group.

The Company indirectly holds 51% equity interest in Far Glory Group. Therefore Far Glory is a connected person of the Company under rule 20.11 (5) of the GEM Listing Rules. The loan agreement and the transactions contemplated constitute a continuing connected transaction for the Company. For detailed information, please refer to the announcement of the Company dated 11 February 2010.