



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)



Interim Report 2010

## INTERIM RESULTS (UNAUDITED)

The board (the "Board") of directors (the "Directors") is pleased to present an unaudited consolidated financial statements of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 30 June 2010 together with the comparative figures for the corresponding period in 2009, as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Note	Three months ended 30 June		Six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>Continuing operations</b>					
Turnover	3	1,503	982	2,765	1,919
Cost of services rendered		(352)	(144)	(631)	(249)
Gross profit		1,151	838	2,134	1,670
Other income		-	35	-	35
Administrative and other expenses		(2,439)	(3,319)	(4,619)	(5,130)
Finance costs		(297)	(316)	(597)	(569)
Share of losses of jointly controlled entities/associates		-	(21)	-	(38)
<b>Loss before taxation</b>	5	(1,585)	(2,783)	(3,082)	(4,032)
Income tax expense	6	(26)	(73)	(80)	(150)
<b>Loss for the period from continuing operations</b>		(1,611)	(2,856)	(3,162)	(4,182)
<b>Discontinued operation</b>		-	-	-	4,674

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Note	Three months ended 30 June		Six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>(Loss)/Profit for the period</b>		<b>(1,611)</b>	<b>(2,856)</b>	<b>(3,162)</b>	492
<b>Other comprehensive income for the period</b>					
Currency translation differences		-	-	-	-
<b>Total comprehensive (loss) income for the period</b>		<b>(1,611)</b>	<b>(2,856)</b>	<b>(3,162)</b>	492
<b>(Loss) Profit attributable to:</b>					
Equity holders of the Company		<b>(1,645)</b>	(3,036)	<b>(2,808)</b>	121
Minority interests		<b>34</b>	180	<b>(354)</b>	371
		<b>(1,611)</b>	<b>(2,856)</b>	<b>(3,162)</b>	492
<b>Total comprehensive (loss) income attributable to:</b>					
Equity holders of the Company		<b>(1,645)</b>	(3,036)	<b>(2,808)</b>	121
Minority interests		<b>34</b>	180	<b>(354)</b>	371
		<b>(1,611)</b>	<b>(2,856)</b>	<b>(3,162)</b>	492
<b>Dividends</b>	7	-	-	-	-
<b>Basic and diluted (loss) earnings per share</b>	8				
From continuing and discontinued operations		<b>HK(0.08) cents</b>	HK(0.22) cents	<b>HK(0.14) cents</b>	HK0.01 cents
From continuing operation		<b>HK(0.08) cents</b>	HK(0.22) cents	<b>HK(0.14) cents</b>	HK(0.34) cents
From discontinued operation		-	-	-	HK0.35 cents

# UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

Notes	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	<b>50</b>	100
Interests in jointly controlled entities	<b>10,077</b>	9,455
Goodwill	<b>109,296</b>	109,296
	<b>119,423</b>	118,851
<b>CURRENT ASSETS</b>		
Inventories	<b>133</b>	143
Trade and other receivables	<b>15,240</b>	11,674
Due from a director of a subsidiary	<b>1,585</b>	1,585
Cash and bank balances	<b>43,764</b>	29,052
	<b>60,722</b>	42,454
<b>CURRENT LIABILITIES</b>		
Other payables	<b>1,270</b>	3,059
Loans from minority shareholders of a subsidiary	<b>–</b>	490
Tax payable	<b>277</b>	197
	<b>1,547</b>	3,746
<b>NET CURRENT ASSETS</b>	<b>59,175</b>	38,708
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>178,598</b>	157,559
<b>NON-CURRENT LIABILITIES</b>		
Other payables	<b>18,000</b>	18,000
Convertible bonds	<b>25,489</b>	24,895
Deferred tax liabilities	<b>22</b>	16
	<b>43,511</b>	42,911
<b>NET ASSETS</b>	<b>135,087</b>	114,648
<b>EQUITY</b>		
Share capital	<b>103,579</b>	97,029
Reserves	<b>18,167</b>	4,414
	<b>121,746</b>	101,443
<b>MINORITY INTERESTS</b>	<b>13,341</b>	13,205
	<b>135,087</b>	114,648

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note a)	Convertible notes reserve HK\$'000	Exchange reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Subtotal HK\$'000	Minority interests HK\$'000	Total HK\$'000
<b>2009</b>										
At 1 January 2009	66,519	68,103	10,084	2,836	(69)	4,354	(112,510)	39,317	672	39,989
Shares issued upon exercise of share options	1,735	1,469	-	-	-	(1,082)	-	2,122	-	2,122
Employee share-based compensation	-	-	-	-	-	1,711	-	1,711	-	1,711
Disposal of subsidiaries	-	-	-	-	69	-	-	69	-	69
Profit for the period	-	-	-	-	-	-	121	121	371	492
At 30 June 2009	68,254	69,572	10,084	2,836	0	4,983	(112,389)	43,340	1,043	44,383
<b>2010</b>										
At 1 January 2010	97,029	100,826	10,084	6,260	-	7,645	(120,401)	101,443	13,205	114,648
Exercise of share options	6,550	22,278	-	-	-	(5,717)	-	23,111	-	23,111
Capital injection in a subsidiary	-	-	-	-	-	-	-	-	490	490
Loss for the period	-	-	-	-	-	-	(2,808)	(2,808)	(354)	(3,162)
At 30 June 2010	103,579	123,104	10,084	6,260	-	1,928	(123,209)	121,746	13,341	135,087

Note:

- (a) The special reserve represents the difference between the nominal amount of shares and share premium of the subsidiaries at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation taken place in 2003.

# UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010

	<b>Six months ended 30 June 2010 HK\$'000</b>	Six months ended 30 June 2009 HK\$'000
Net cash used in operating activities	<b>(14,599)</b>	(4,858)
Net cash from investing activities	<b>478</b>	971
Net cash outflow before financing activities	<b>(14,121)</b>	(3,887)
Net cash from financing activities	<b>28,833</b>	1,704
Net increase/(decrease) in cash and cash equivalents	<b>14,712</b>	(2,183)
Cash and cash equivalents at beginning of the period	<b>29,052</b>	12,109
Effect of exchange rate fluctuations, net	<b>-</b>	-
Cash and cash equivalents at end of the period	<b>43,764</b>	9,926





# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

China Digital Licensing (Group) Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The Company’s shares have been listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands and its principal place of business is located at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

The Group is principally engaged in the provision of copyright management solution and the related consultancy services and the distribution of copyright-protected items. The Group is also engaged in the development and provision of on-line education programs, provide languages and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macao.

## 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

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

### 3. TURNOVER

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

	Three months ended		Six months ended	
	30 June	30 June	30 June	30 June
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Continuing operations</b>				
e-Learning business	1,503	982	2,765	1,919
<b>Discontinued operation</b>				
Putonghua learning platform	-	-	-	173
	<b>1,503</b>	982	<b>2,765</b>	2,092



#### 4. SEGMENT INFORMATION

##### (a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

##### Six months ended 30 June

	Continuing operations				Discontinued operation		Consolidated	
	E-licensing business		E-learning business		Server-based technology		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000		
<b>Segment revenue:</b>								
Sales to external customers	-	-	2,765	1,919	-	173	2,765	2,092
<b>Segment results</b>	-	-	2,134	757	-	(29)	2,134	728
Unallocated income							-	35
Unallocated expenses							(4,619)	(4,217)
Unallocated finance costs							(597)	(569)
Gain on disposal of subsidiaries							-	4,703
Share of losses from associates							-	(38)
(Loss)/Profit before tax							(3,082)	642
Tax							(80)	(150)
(Loss)/Profit for the period							(3,162)	492

## As at 30 June

	Continuing operations				Discontinued operation			
	E-licensing business		E-learning business		Server-based technology		Consolidated	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>Assets</b>								
Segment assets	17,256	-	4,364	3,064	-	-	21,620	3,064
Interest in jointly controlled entities	10,077	-	-	-	-	-	10,077	-
Interest in associates	-	65,212	-	-	-	-	-	65,212
Unallocated assets							148,448	28,857
Total assets							180,145	97,133
<b>Liabilities</b>								
Segment liabilities	34	-	1,952	935	-	-	1,986	935
Unallocated liabilities							43,072	51,815
Total liabilities							45,058	52,750
Other segment information:								
Depreciation	-	-	62	59	-	-	62	59
Capital expenditure	-	-	12	7	-	-	12	7

### (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	Six months ended 30 June					
	Mainland China		Hong Kong		Consolidated	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	-	-	2,765	2,092	2,765	2,092
Other segment information:						
Non-current assets	108,622	65,212	10,801	19,978	119,423	85,190

## 5. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Depreciation	31	30	62	59
Employee share-based payment	-	1,711	-	1,711

## 6. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

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

## 7. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the six months ended 30 June 2010 (2009: Nil).



## 9. TRADE AND OTHER RECEIVABLES

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Trade receivables	<b>1,126</b>	1,978
Deposits, prepayments and other receivables	<b>14,114</b>	9,696
	<b>15,240</b>	11,674

An ageing analysis of the trade receivables is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Current	<b>472</b>	328
Less than 1 month past due	<b>122</b>	610
1 month to 2 months past due	<b>118</b>	598
Over 3 months past due	<b>414</b>	442
	<b>1,126</b>	1,978

## 10. OTHER PAYABLES

Included in other payables as of 30 June 2010 and 31 December 2009 was an amount of HK\$18,000,000 being the partial consideration for the acquisition of 12% equity interest in Far Glory Limited ("Far Glory") and its subsidiaries ("Far Glory Group"), which is extra convertible note 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 and interest-free.

## **11. CONVERTIBLE NOTES**

In June 2008, the Company had issued 1% convertible bonds with nominal value of HK\$4,000,000. The convertible bonds were issued as partial consideration for the acquisition of 12% shareholding interest in Far Glory Group.

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 fair values of the liability component and the equity conversion component were determined at the date of issuance of the convertible notes. The fair value of the liability component was calculated using a market interest rate of 5%.

## **12. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to confirm with current periods presentation.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### I. Digital Contents

The Group formally launched its licensed Japanese digital audio entertainment contents in the Japanese song section (日語歌曲下載區) on Baidu (百度網站) in April 2010. Over 9,000 licensed Japanese songs of Avex have been uploaded by the Group and the related download/trial rates hit over one million. The Group will complete the installation of a full range Japanese digital audio entertainment contents platform on Baidu (百度網站) and such stage of operation is expected to complete in two to three months. In the next stage of operation, the Group will provide full range of digital copyrights management services to Baidu (百度網站), which is expected to complete in the coming quarter of 2010.

The Group has, in principle, reached agreement with several major record labels for authorization of the Group to provide licensed music contents to a telecommunication provider in the PRC. Related documentations are expected to be executed shortly. The infrastructure and backbone of the e-License digital copyright management system for the 2.5G and 3G mobile telecommunication networks of such major telecommunication operator has already completed and such system is in a ready-to-launch mode.

### II. e-Learning business

Leveraging on the high emphasis and deployment of increasing financial resources on education particularly the language proficiency and on-line education by the Hong Kong Government, during the period, the Group has successfully clinched over a dozen of the first batch of the Hong Kong Government funding education projects for provision of e-Learning English enhancement programs, which will commence in the last quarter of 2010. In addition, the Group has successfully installed mimio interactive whiteboards for more than 30 primary and secondary schools in Hong Kong.

## FINANCIAL REVIEW

For the six months ended 30 June 2010, the Group recorded a turnover of approximately HK\$2,765,000 (2009: approximately HK\$1,919,000), representing an increase of approximately 44.1% compared to the same period last year. The increase in turnover was driven by the growth in sales of e-Learning business.

The Group reported a net loss attributable to equity holders of approximately HK\$2,808,000 for the six months ended 30 June 2010, compared to a net profit of approximately HK\$121,000 in the previous corresponding period. The net profit in the preceding year included a non-recurring profit of HK\$4,674,000 from the disposal of server-based technology business.

### Liquidity and financial resources

As at 30 June 2010, the Group had current assets of approximately HK\$60,722,000 (31 December 2009: HK\$42,454,000). The current assets were comprised mainly of cash and bank balances of HK\$43,764,000 (31 December 2009: HK\$29,052,000) together with trade and other receivables of HK\$15,240,000 (31 December 2009: HK\$11,674,000). The Group's current liabilities were comprised mainly of other payables of approximately HK\$1,270,000 (31 December 2009: HK\$3,059,000). The Group had no bank borrowings at 30 June 2010 (31 December 2009: Nil).

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 30 June 2010, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.







## Foreign exchange risk

Since almost all transactions of the Group are denominated either in Renminbi and Hong Kong dollars 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 30 June 2010, the group had no material contingent liabilities.

## Employee information

As at 30 June 2010, the Group had 23 (31 December 2009: 23) full-time employees. 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.

The Group also adopts employee share option scheme to provide eligible employees a performance incentive for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

## CONTINUING CONNECTED TRANSACTION

On 11 February 2010, the Company entered into a loan agreement (the "Loan Agreement") with Far Glory to grant a revolving facility of up to a maximum amount of HK\$9.5 million at any time during the period commencing from the date of the loan agreement and ending on the date falling 36 months from the date of the Loan Agreement for financing the business development and working capital requirements of the Far Glory Group.

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 detailed information, please refer to the announcement of the Company dated 11 February 2010.

On 23 July 2010, the Company and Far Glory have agreed to revise the Loan Agreement. Details of the revised Loan Agreement was disclosed in the section headed "Event After Reporting Period".

## **EVENT AFTER THE REPORTING PERIOD**

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

As mentioned under the section headed "Continuing Connected Transaction", Far Glory is a connected person of the Company. The Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder constitute a continuing connected transaction for the Company and are subject to the reporting and announcement requirements as well as the independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Approval of the independent shareholders by way of poll is proposed to be sought at an extraordinary general meeting in respect of the Loan Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder. Details of the transaction have been set out in the announcement of the Company dated 23 July 2010.



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

As at 30 June 2010, 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:

### Interest in Shares

<b>Name of director</b>	<b>Nature of interests</b>	<b>Number or attributable number of Shares held or short positions</b>	<b>Approximate percentage or attributable percentage of shareholding</b>
Mr. Pang Hong Tao	Beneficial	42,800,000 (L)	2.07%
Mr. Hsu Tung Sheng	Beneficial	19,000,000 (L)	0.92%
Mr. Ma She Shing, Albert	Beneficial	28,870,000 (L)	1.39%
Ms. Au Shui Ming, Anna	Beneficial	54,500,000 (L)	2.63%

(L) denotes long position

Save as disclosed above, as at 30 June 2010, 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 2010	Exercised during the period	Outstanding at 30 June 2010	Exercise price HK\$	Grant date	Exercisable period
<b>Directors</b>						
Mr. Pang Hong Tao	13,000,000	(13,000,000)	-	0.177	16/12/2009	30/12/2009- 15/12/2011
Mr. Hsu Tung Sheng	6,000,000	(6,000,000)	-	0.177	16/12/2009	29/12/2009- 15/12/2011
Ms. Au Shui Ming, Anna	13,000,000	(13,000,000)	-	0.177	16/12/2009	30/12/2009- 15/12/2011
Mr. Ma She Shing, Albert	1,000,000	(1,000,000)	-	0.101	28/8/2008	16/9/2008- 27/8/2018
	18,000,000	(18,000,000)	-	0.177	16/12/2009	30/12/2009- 15/12/2011
<b>Employees</b>	80,000,000	(80,000,000)	-	0.177	16/12/2009	30/12/2009- 15/12/2011
	131,000,000	(131,000,000)	-			

## SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 30 June 2010, 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

<b>Name of Substantial Shareholder</b>	<b>Nature of interests</b>	<b>Number or attributable number of Shares held or short positions</b>	<b>Approximate percentage or attributable percentage of shareholding</b>
Mr. Lau Kim Hung, Jack (Note 1)	Interest of controlled corporations	427,698,238 (L)	20.65%
	Deemed	6,000,000 (L)	0.29%
Ms. Chan Yiu Kan Katie (Note 1)	Beneficial	6,000,000 (L)	0.29%
	Deemed	427,698,238 (L)	20.65%
Manciple Enterprises Limited (Note 1)	Beneficial	412,698,238 (L)	19.92%



<b>Name of Substantial Shareholder</b>	<b>Nature of interests</b>	<b>Number or attributable number of Shares held or short positions</b>	<b>Approximate percentage or attributable percentage of shareholding</b>
Eagle Strategy Limited (Note 1)	Beneficial	15,000,000 (L)	0.72%
Mr. Hsu Tung Chi (Note 2)	Beneficial	19,000,000 (L)	0.92%
	Interest of controlled corporation	58,000,000 (L)	2.80%
Ms. Chuang Meng Hua (Note 2)	Deemed	77,000,000 (L)	3.72%
Daily Technology Company Limited (Note 2)	Beneficial	58,000,000 (L)	2.80%

(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 412,698,238 shares. Under the SFO, Mr. Lau is deemed to be interested in 412,698,238 shares. Mr. Lau is also deemed to be interested in 15,000,000 shares owned by Eagle Strategy Limited, which is wholly and beneficially owned by Mr. Lau.

Ms. Chan Yiu Kan Katie (“Ms. Chan”), the wife of Mr. Lau, is personally interested in 6,000,000 shares. Being spouses, Mr. Lau and Ms. Chan are deemed to be interested in their respective shareholding in the Company under the SFO.

2. Mr. Hsu Tung Chi (“Mr. Hsu”) beneficially owns 19,000,000 shares. Daily Technology Company Limited (“Daily Technology”) is beneficially owned as to 98% by Mr. Hsu. Daily Technology beneficially owns 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 77,000,000 shares by virtue of her being the spouse of Mr. Hsu.

## (ii) Interest in underlying shares

<b>Name of shareholder</b>	<b>Nature of interests</b>	<b>Description of securities</b>	<b>Number of underlying shares</b>	<b>Approximate percentage of interests</b>
Mr. Hsu Tung Chi	Beneficial	Convertible bonds (Note 1)	122,222,222 (L)	5.90%
	Interest of controlled corporation	Convertible bonds (Note 1)	286,202,127 (L)	13.81%
Ms. Chuang Meng Hua	Deemed	Convertible bonds (Note 1)	408,424,349 (L)	19.71%
Daily Technology Company Limited	Beneficial	Convertible bonds (Note 1)	286,202,127 (L)	13.81%

(L) denotes long position





Notes:

1. According to the sale and purchase agreement entered into among Cheer Plan Limited ("Cheer Plan"), a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi ("Mr. Hsu") and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will allot a maximum of 222,222,222 convertible bonds to Mr. Hsu. 100,000,000 convertible bonds were redeemed by the Company. As at 30 June 2010, there were 122,222,222 convertible bonds outstanding.

Daily Technology Company Limited ("Daily Technology") is beneficially owned as to 98% by Mr. Hsu. Pursuant to the agreement entered into 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.

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

Save as disclosed above, as at 30 June 2010, the directors were not aware of any other person (other than the directors and the chief executive the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## **COMPETING INTERESTS**

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

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

During the period ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no Less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the period ended 30 June 2010.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 30 June 2010 except that no nomination committee of the Board is established.

No nomination committee was established by the Company. The Board is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Board will review the qualifications of the relevant candidate for determining the suitability to the Group on the basis of his qualifications, experience and background.



## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments on the quarterly reports. The audit committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Lee Kun Hung, all of them are independent non-executive directors. The chairman of the audit committee is Mr. Kwok Chi Sun, Vincent.

The Group's unaudited interim results for the six months ended 30 June 2010 has been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosure has been made.

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

By order of the Board of  
**China Digital Licensing (Group) Limited**  
**Pang Hong Tao**  
*Chairman*

Hong Kong, 9 August 2010