



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 2011

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

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



## 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 2011 together with the comparative figures for the corresponding period in 2010, as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Note	Three months ended 30 June		Six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Turnover	3	<b>8,795</b>	1,503	<b>11,339</b>	2,765
Cost of services rendered and cost of good sold		<b>(3,094)</b>	(352)	<b>(4,203)</b>	(631)
Gross profit		<b>5,701</b>	1,151	<b>7,136</b>	2,134
Other income		<b>131</b>	-	<b>204</b>	-
Administrative and other expenses		<b>(5,289)</b>	(2,439)	<b>(8,583)</b>	(4,619)
Finance costs		<b>(342)</b>	(297)	<b>(640)</b>	(597)
Share of profits of associates		<b>350</b>	-	<b>350</b>	-
<b>Profit (Loss) before taxation</b>	5	<b>551</b>	(1,585)	<b>(1,533)</b>	(3,082)
Income tax expense	6	<b>(22)</b>	(26)	<b>(47)</b>	(80)
<b>Profit (Loss) for the period</b>		<b>529</b>	(1,611)	<b>(1,580)</b>	(3,162)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Note	Three months ended 30 June		Six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Other comprehensive income for the period</b>					
Currency translation differences		-	-	-	-
<b>Total comprehensive Profit (loss) for the period</b>		<b>529</b>	<b>(1,611)</b>	<b>(1,580)</b>	<b>(3,162)</b>
<b>Profit (loss) attributable to:</b>					
Equity holders of the Company		<b>(1,251)</b>	<b>(1,645)</b>	<b>(3,188)</b>	<b>(2,808)</b>
Non-controlling interests		<b>1,780</b>	<b>34</b>	<b>1,608</b>	<b>(354)</b>
		<b>529</b>	<b>(1,611)</b>	<b>(1,580)</b>	<b>(3,162)</b>
<b>Total comprehensive Profit (loss) attributable to:</b>					
Equity holders of the Company		<b>(1,251)</b>	<b>(1,645)</b>	<b>(3,188)</b>	<b>(2,808)</b>
Non-controlling interests		<b>1,780</b>	<b>34</b>	<b>1,608</b>	<b>(354)</b>
		<b>529</b>	<b>(1,611)</b>	<b>(1,580)</b>	<b>(3,162)</b>
<b>Dividends</b>	7	-	-	-	-
<b>Loss per share</b>	8				
Basic		<b>HK(0.06) cents</b>	<b>HK(0.08) cents</b>	<b>HK(0.14) cents</b>	<b>HK(0.14) cents</b>
Diluted		-	-	-	-

# UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

Note	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>		
	113	54
Property, plant and equipment		
Interests in associates	<b>30,060</b>	–
Due from jointly controlled entities	<b>18,375</b>	15,706
Goodwill	<b>109,296</b>	109,296
	<b>157,844</b>	125,056
<b>CURRENT ASSETS</b>		
	300	246
Inventories		
Trade and other receivables	<b>34,787</b>	28,922
Tax recoverable	<b>163</b>	163
Due from a director of a subsidiary	<b>985</b>	1,585
Bank balances and cash	<b>30,835</b>	44,645
	<b>67,070</b>	75,561
<b>CURRENT LIABILITIES</b>		
	15,306	4,141
Other payables		
Convertible bonds	–	3,928
Earn-out payable	–	18,000
	<b>15,306</b>	26,069
<b>NET CURRENT ASSETS</b>		
	<b>51,764</b>	49,492
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		
	<b>209,608</b>	174,548
<b>NON-CURRENT LIABILITIES</b>		
	26,723	22,174
Convertible bonds		
Earn-out payable	18,000	–
Deferred tax liabilities	–	4
	<b>44,723</b>	22,178
<b>NET ASSETS</b>		
	<b>164,885</b>	152,370
<b>CAPITAL AND RESERVES</b>		
	111,059	109,754
Share capital		
Reserves	<b>46,306</b>	36,704
Equity attributable to equity holders of the Company	<b>157,365</b>	146,458
Non-controlling interests	<b>7,520</b>	5,912
<b>TOTAL EQUITY</b>		
	<b>164,885</b>	152,370

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Share capital	Share premium	Special reserve	Warrant reserve	Convertible bonds reserve	Employee		Accumulated losses	Subtotal	Non- controlling interests	Total
						Exchange reserve	share-based compensation reserve				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)										
<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
<b>2011</b>											
At 1 January 2011	109,754	149,585	10,084	291	6,260	86	12,251	(141,853)	146,458	5,912	152,370
Issue of consideration shares	1,305	12,790	-	-	-	-	-	-	14,095	-	14,095
Profit (Loss) for the period	-	-	-	-	-	-	-	(3,188)	(3,188)	1,608	(1,580)
At 30 June 2011	111,059	162,375	10,084	291	6,260	86	12,251	(145,041)	157,265	7,520	164,885

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 2011

	<b>Six months ended 30 June 2011 HK\$'000</b>	Six months ended 30 June 2010 HK\$'000
Net cash from (used in) operating activities	<b>4,556</b>	(14,599)
Net cash (used in) from investing activities	<b>(18,366)</b>	478
Net cash outflow before financing activities	<b>(13,810)</b>	(14,121)
Net cash from financing activities	-	28,833
Net (decrease)/increase in cash and cash equivalents	<b>(13,810)</b>	14,712
Cash and cash equivalents at beginning of the period	<b>44,645</b>	29,052
Effect of exchange rate fluctuations, net	-	-
Cash and cash equivalents at end of the period	<b>30,835</b>	43,764

## NOTES

### 1. CORPORATE INFORMATION

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

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

### 2. STATEMENT OF COMPLIANCE

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

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2010 financial statements.





### 3. TURNOVER

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

	Three months ended 30 June		Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
e-Licensing business	6,290	–	6,290	–
e-Learning business	2,505	1,503	5,049	2,765
	<b>8,795</b>	1,503	<b>11,339</b>	2,765

### 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

	e-Licensing business		e-Learning business		Consolidated	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Segment revenue:</b>						
Sales to external customers	6,290	–	5,049	2,765	11,339	2,765
<b>Segment results</b>	<b>3,043</b>	(75)	<b>287</b>	474	<b>3,330</b>	399
Unallocated income					204	–
Unallocated expenses					(4,777)	(2,884)
Unallocated finance costs					(640)	(597)
Share of profits of associates					350	–
Loss before tax					(1,533)	(3,082)
Taxation					(47)	(80)
Loss for the period					<b>(1,580)</b>	(3,162)

## As at 30 June

	e-Licensing business		e-Learning business		Consolidated	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Assets</b>						
Segment assets	47,164	15,930	9,405	4,364	56,569	20,294
Due from jointly controlled entities	18,375	11,403	–	–	18,375	11,403
Interest in associates					30,060	–
Unallocated assets					119,910	148,448
Consolidated total assets					224,914	180,145
<b>Liabilities</b>						
Segment liabilities	8,879	34	6,303	1,454	15,182	1,488
Unallocated liabilities					44,847	43,570
Consolidated total liabilities					60,029	45,058
Other segment information:						
Depreciation	12	–	11	62	23	62
Capital expenditure	61	–	21	12	82	12

### (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 and elsewhere		Consolidated	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	3,866	–	7,473	2,765	11,339	2,765
Other segment information:						
Non-current assets	145,092	108,622	12,752	10,801	157,844	119,423

## 5. PROFIT (LOSS) BEFORE TAXATION

Profit (Loss) before taxation is stated after charging:

	Three months ended 30 June		Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Depreciation	12	31	23	62

## 6. TAXATION

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

Taxes in profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

## 7. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the six months ended 30 June 2011 (2010: Nil).

## 8. LOSS PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Loss attributable to equity holders of the Company	(1,251)	(1,645)	(3,188)	(2,808)

	Number of shares		Number of shares	
	2011	2010	2011	2010
Shares				
Weighted average number of ordinary shares in issue during the period	2,201,969,292	2,071,585,643	2,198,546,483	2,019,121,555

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

## 9. TRADE AND OTHER RECEIVABLES

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Trade receivables	<b>5,915</b>	2,709
Deposits, prepayments and other receivables	<b>28,872</b>	26,213
	<b>34,787</b>	28,922

An ageing analysis of the trade receivables is as follows:

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Current	<b>5,271</b>	1,472
Less than 1 month past due	<b>222</b>	483
1 month to 3 months past due	<b>194</b>	680
Over 3 months past due	<b>228</b>	74
	<b>5,915</b>	2,709



## 10. CONVERTIBLE BONDS

- (i) In June 2008, the Company had issued 1% convertible bonds with nominal value of HK\$4,000,000. The convertible bonds due on 29 June 2011 were issued as partial consideration for the acquisition of 12% shareholding interest in Far Glory Limited (“Far Glory”).

In May 2011, an extension of time for fulfillment of profit guarantee has been granted to Far Glory and accordingly, the convertible bonds due on 29 June 2011 has been extended to 31 December 2014 and is clarified as non-current liabilities. For details of the aforesaid extension, please refer to the circular of the Company dated 4 May 2011.

- (ii) Upon completion of the acquisition of 21.57% equity interest in Far Glory 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 bonds. The fair value of the liability component was calculated using a market interest rate of 5%. The residual amount, representing the value of the equity conversion component, has been included in the convertible bonds reserve.

## 11. EARN-OUT PAYABLE

Earn-out payable as of 30 June 2011 and 31 December 2010 represented the balance consideration for the acquisition of 12% equity interest in Far Glory, being a maximum of HK\$18,000,000 to be settled by issuing extra convertible bonds by the Company. This amount is unsecured and interest-free.

As mentioned in note 10 above, the extension of time for fulfillment of profit guarantee has been granted. Accordingly, the fulfillment of the aforesaid balance consideration has been extended and thus, the earn-out payable is classified as non-current liabilities.

## 12. COMPARATIVE FIGURES

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

## BUSINESS REVIEW


For the six months ended 30 June 2011, the Group recorded a turnover of approximately HK\$11,339,000, representing a 4.1-fold increase from approximately HK\$2,765,000 in the same period last year. For the three months ended 30 June 2011, the Group has improved from its past loss-making position and recorded a profit before taxation and minority interests amounting to approximately HK\$551,000. The improvement in the financial performance marks the beginning of a new era of the Group.

### I. e-Licensing Business

During the first quarter of 2011, the Group endeavoured to focus on handling the aspects of the piracy, legality and digitalization/formatting in relation to the music contents licensed by OneStop China Limited. The Group has started the trial launch of the licensed music contents on the music platform of China Unicom (the "UM Platform") in February 2011. Over 20,000 pieces of the latest and the popular licensed music and songs have been uploaded by the Group on the UM Platform, including songs from well-known international artists like Lady Gaga, Justin Bieber and Taylor Swift, as well as the original sound track of the popular motion pictures like Harry Potter VII and Transformer III. In collaboration with the UM Platform, the Group has successfully launched the music contents nationwide in the second quarter of 2011.

In addition to the above, the Group is working aggressively with the operating units of China Unicom in various provinces/cities to roll out and promote the monthly packaged product (the "MPP") such as ringtone, ring-back tone, full track download, and music video download through the UM Platform in the third quarter. Rolling out of the MPP is now in full swing in ten provinces and major cities in the PRC, including Guangdong, Zhejiang, Guangxi, Shanghai, Chongqing and etc. It is expected that the MPP will expand to the remaining provinces and cities in the coming quarter. The MPP, coupled with the above nationwide music contents (based on download rate), are likely to generate robust growth in revenue and profit in the coming quarters.





The Group completed the acquisition of 25% equity interest of Socle Limited and its subsidiaries, one of the leading distributors of professional sports licensed media content in the PRC on 7 June 2011. The acquisition complemented the Company's existing content business and will enrich the variety of licensed content of the Group.

In addition, the Group has been exploring other business opportunities that would broaden the business scope of the Group and at the same time, capitalize the existing platform/technology, strategic alliances and directions of the Group.

## **II. e-Learning Business**

During the period under review, the e-Learning business delivered robust turnover growth of 82.6% over the same period last year to approximately HK\$5,049,000. With its high penetration rate into the primary and secondary schools, the Group has emerged as a leading provider of various e-learning platforms, e-learning contents and the latest educational solutions in Hong Kong and Macao.

In July 2011, the Group signed a contract with Educational Testing Service (ETS) of the United States to be the official representative of TOEIC (Test of English for International Communication) in Hong Kong and Macao. TOEIC is the global standard for English-language assessment, and it is being used by over 10,000 organizations in 120 countries. Over 6 million TOEIC tests were administered in 2010.

During the period under review, the e-Learning business made significant breakthroughs in the above-mentioned projects. The management is confident that those projects will bring meaningful profit contributions to the Group.

## FINANCIAL REVIEW

For the six months ended 30 June 2011, the Group recorded a 4.1-fold increase in its turnover to approximately HK\$11,339,000 as compared to approximately HK\$2,765,000 of previous corresponding period. The increase was mainly attributable to the revenue generated by the e-Licensing business which contributed to approximately 55.5% of the total turnover.

The Group recorded an increase in gross profit of approximately 234.4% to approximately HK\$7,136,000 for the six months ended 30 June 2011 as compared to approximately HK\$2,134,000 in the same period of last year. The increase was mainly due to the increased turnover contribution from the e-Licensing business.

The Group reported a net loss attributable to equity holders of approximately HK\$3,188,000 for the six months ended 30 June 2011, compared to a net loss of approximately HK\$2,808,000 in the corresponding period of last year.

Administrative expenses for the six months ended 30 June 2011 amounted to approximately HK\$8,583,000 (2010: approximately HK\$4,619,000), representing an increase of approximately 85.8% compared with the same period last year. Such increase was in-line with the increase in turnover.





## Liquidity and financial resources

As at 30 June 2011, the Group had current assets of approximately HK\$67,070,000 (31 December 2010: HK\$75,561,000) and current liabilities of approximately HK\$15,306,000 (31 December 2010: HK\$26,069,000). The current assets were comprised mainly of cash and bank balances of HK\$30,835,000 (31 December 2010: HK\$44,645,000) together with trade and other receivables of HK\$34,787,000 (31 December 2010: HK\$28,922,000). The Group's current liabilities were comprised mainly of other payables of approximately HK\$15,306,000 (31 December 2010: HK\$4,141,000). The Group had no bank borrowings at 30 June 2011 (31 December 2010: 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 2011, 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 2011, the group had no material contingent liabilities.

## Employee information

As at 30 June 2011, the Group had 36 (31 December 2010: 40) 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.

## MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

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

Upon completion of the acquisition on 7 June 2011, Marvel Cosmos holds 25% equity interest of Socle. Details of the acquisition was set out in the circular dated 17 May 2011.



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

As at 30 June 2011, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

### (i) Interest in Shares

<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. Hsu Tung Sheng	Beneficial	19,000,000 (L)	0.86%
Mr. Hsu Tung Chi (Note 1)	Beneficial Interest of controlled corporation	19,000,000 (L) 41,070,000 (L)	0.86% 1.85%
Daily Technology Company Limited (Note 1)	Beneficial	41,070,000 (L)	1.85%
Mr. Pang Hong Tao	Beneficial	42,800,000 (L)	1.93%
Ms. Au Shui Ming, Anna	Beneficial	54,500,000 (L)	2.45%

(L) denotes long position

Note:

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

## (ii) Interest in share options

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

(L) denotes long position

## (iii) Interest in underlying shares

<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)	5.50%
	Interest of controlled corporation	Convertible bonds (Note 1)	286,202,127 (L)	12.89%
Daily Technology Company Limited	Beneficial	Convertible bonds (Note 1)	286,202,127 (L)	12.89%

(L) denotes long position



Note:

1. According to the sale and purchase agreement entered into among Cheer Plan Limited ("Cheer Plan"), a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi ("Mr. Hsu") and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will allot a maximum of 222,222,222 convertible bonds to Mr. Hsu. 100,000,000 convertible bonds were redeemed by the Company. As at 30 June 2011, there were 122,222,222 convertible bonds outstanding.

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

Save as disclosed above, as at 30 June 2011, none of the directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

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

Categories of grantees	As at 1 January 2011	Exercised during the period	Outstanding at 30 June 2011	Exercise price HK\$	Grant date	Exercisable period
<b>Directors</b>						
Mr. Hsu Tung Sheng	15,000,000	-	15,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Mr. Hsu Tung Chi	15,000,000	-	15,000,000	0.475	16/12/2010	16/12/2010- 15/12/2013
Mr. Pang Hong Tao	8,000,000	-	8,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Ms. Au Shui Ming, Anna	8,000,000	-	8,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
<b>Employees</b>						
	48,000,000	-	48,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
	4,000,000	-	4,000,000	0.475	16/12/2010	16/12/2010- 15/12/2013
	98,000,000	-	98,000,000			



## SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 30 June 2011, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

### (i) Interest in Shares

<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	497,698,238 (L)	22.41%
	Deemed	4,500,000 (L)	0.20%
Ms. Chan Yiu Kan Katie (Note 1)	Beneficial	4,500,000 (L)	0.20%
	Deemed	497,698,238 (L)	22.41%
Manciple Enterprises Limited (Note 1)	Beneficial	482,698,238 (L)	21.73%
Eagle Strategy Limited (Note 1)	Beneficial	15,000,000 (L)	0.68%
Decade Talent Limited (Note 2)	Beneficial	75,000,000 (L)	3.38%

<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. Wan Wah Chung (Note 2)	Beneficial	3,000,000 (L)	0.14%
	Interest of controlled corporation	75,000,000 (L)	3.38%
	Deemed	700,000 (L)	0.03%
Ms. Yueng Wing Suen (Note 2)	Beneficial	700,000 (L)	0.03%
	Deemed	78,000,000 (L)	3.51%

(L) denotes long position

Notes:

1. Manciple Enterprises Limited ("Manciple") is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau"). Manciple beneficially owns 482,698,238 shares. Under the SFO, Mr. Lau is deemed to be interested in 482,698,238 shares. Mr. Lau is also deemed to be interested in 15,000,000 shares owned by Eagle Strategy Limited, which is wholly and beneficially owned by Mr. Lau.

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

2. Decade Talent Limited ("Decade Talent") is wholly and beneficially owned by Mr. Wan Wah Chung ("Mr. Wan"). Decade Talent beneficially owns 75,000,000 shares. Under the SFO, Mr. Wan is deemed to be interested in 75,000,000 shares. Ms. Yueng Wing Suen ("Ms. Yueng"), the wife of Mr. Wan, is personally interested in 700,000 shares. Being spouses, Mr. Wan and Ms. Yueng are deemed to be interested in their respective shareholding in the Company under the SFO.





## (ii) Interest in underlying shares

Name of shareholder	Nature of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Decade Talent Limited	Beneficial	Warrants (Note 1)	145,000,000 (L)	6.53%
Mr. Wan Wah Chung	Interest of controlled corporation	Warrants (Note 1)	145,000,000 (L)	6.53%
Ms. Yueng Wing Suen	Deemed	Warrants (Note 1)	145,000,000 (L)	6.53%

(L) denotes long position

Note:

1. Pursuant to the conditional warrant subscription agreement dated 10 August 2010 and entered into among the Company, Decade Talent and Mr. Wan in relation to the subscription of 165,000,000 warrants by Decade Talent, Decade Talent subsequently exercised 20,000,000 warrants on 26 November 2010. Under the SFO, Mr. Wan is deemed to be interested in the outstanding 145,000,000 warrants by virtue of his being the ultimate beneficial owner of Decade Talent.

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

Save as disclosed above, as at 30 June 2011, the directors were not aware of any other person (other than the directors and the chief executive of 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 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no Less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the period ended 30 June 2011.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 30 June 2011 except that no nomination committee of the Board is established.

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



## PRE-EMPTIVE RIGHTS

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

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments on the interim reports and 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 2011 has been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosure has been made.

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

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

Hong Kong, 12 August 2011