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 2011

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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.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Hsu Tung Sheng *(Chairman)*
(redesignated on 1 February 2011)
Hsu Tung Chi *(Chief Executive Officer)*
(appointed on 1 February 2011)
Pang Hong Tao
Au Shui Ming, Anna

Non-executive Director

Ma She Shing, Albert (resigned on 1 February 2011)

Independent Non-executive Directors

Kwok Chi Sun, Vincent
Lee Kun Hung
Wong Tak Shing

AUDIT COMMITTEE

Kwok Chi Sun, Vincent
Lee Kun Hung
Wong Tak Shing

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Kwok Chi Sun, Vincent
Au Shui Ming, Anna
Wong Tak Shing

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				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	21,238	10,044	4,150	6,973	**29,315**
(Loss) Profit for the year attributable to:					
Equity holders of the Company	(2,470)	(66,159)	(8,767)	(21,452)	**(37,857)**
Non-controlling interests	3,176	(4,246)	308	(7,640)	**2,506**
(Loss) Profit for the year	706	(70,405)	(8,459)	(29,092)	**(35,351)**

ASSETS AND LIABILITIES

	As at 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	135,776	101,184	161,305	200,617	**184,552**
Total liabilities	(18,101)	(61,195)	(46,657)	(48,247)	**(55,061)**
Non-controlling interests	(18,019)	(672)	(13,205)	(5,912)	**(8,506)**
Net assets attributable to equity holders of the Company	99,656	39,317	101,443	146,458	**120,985**

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 2011.

During the year, the Group recorded a turnover of approximately HK$29,315,000, representing a 4.2-fold increase from approximately HK$6,973,000 in last year. Loss attributable to equity holders amounted to approximately HK$37,857,000 which was mainly due to the impairment loss of goodwill of HK$34,000,000.

I. E-LICENSING BUSINESS

The e-Licensing business started kicking in revenue in the second quarter of the year and has grown at an accelerating pace during the second half of the year. The Group recorded a turnover of approximately HK$18,781,000 and has improved from its past loss-making position by achieving profit after taxation of approximately HK$6,339,000 for the year.

During the year, the digital copyright management business has achieved significant breakthroughs. In February 2011, the Group successfully launched the music contents of the top three international record labels licensed by OneStop China Limited ("OSC") on the music platform of China Unicom (the "UM Platform"). Meanwhile, the Group has rolled out over 60 monthly packaged products ("MPP") such as ringtone, ring-back tone, full track download and music video download through the UM Platform in ten provinces and major cities respectively in the PRC including Beijing (北京), Shanghai (上海), Jilin (吉林), Jiangsu (江蘇), Sichuan (四川), etc. The MPP incorporates a wide range of music such as songs from famous Chinese artists like Eason Chan (陳奕迅), Faye Wong (王菲), Jacky Cheung (張學友), Chang Hui Mei (張惠妹), Tiger Huang (黃小琥), Jolin Tsai (蔡依林), the original sound track of the popular motion pictures like Transformer III, and music zones for well-known international artists like Whitney Houston, Lady Gaga and Justin Bieber. It is expected that such products will expand to the remaining provinces and cities at the soonest.

In August 2011, the Group entered into a cooperation agreement with China eMusic Limited for the management of the copyrights of music, songs and lyrics granted by Universal, Warner, Sony and EMI which are being uploaded on the UM Platform. The music, songs and lyrics owned by the top four record labels captures over 60% of the market shares of the music industry.

During the year, the Group completed the acquisition of 25% equity interest of Socle Limited ("Socle"), one of the leading distributors of professional sports licensed media content in the PRC. The acquisition complemented the Company's existing content business and broaden the licensed content of the Group. Also, Socle performed well during the year and has achieved the profit guarantee by making profit after taxation of more than US$2,000,000 for the year.

In addition to the above, the Group entered into agreements with several content providers in the PRC for the provision of digital copyright management system solutions and the related consultancy services during the year. Meanwhile, the Group also provided digital entertainment marketing services including website development, comprehensive marketing and promotional packages.

CHAIRMAN'S STATEMENT

Latest Development

With the long negotiation process, the Group has finally reached co-operation in principal with China Mobile and China Telecom and such services are likely to commence in the coming quarters.

The Group has been actively exploring a wider spectrum of entertainment and innovative businesses. In particular, the Group entered into an agreement with Mr. Feng Ke (馮軻) ("Mr. Feng") relating to the investment of 20% equity interest in China Digital Entertainment Company Limited ("China Digital Entertainment") in January 2012. Mr. Feng is a well-known figure in the music/artist agency industry in the PRC who possesses extensive and successful experience in the promotion of entertainment content and artiste management. Mr. Feng has successfully managed several popular artists in the PRC such as Zhang Liangying (張靚穎), Yang Mi (楊冪), Wang Zhengliang (王錚亮) and Pan Chen (潘辰). Through the co-operation with Mr. Feng, the Group will explore more business opportunities for promotion and distribution of digital music content, the provision of copyright management solution and the related consultancy services.

In February 2012, the Group officially signed an agreement with its joint venture Japanese partner, e-License Inc., in relation to obtaining the license granted by Crypton Future Media, Inc ("Crypton") for the provision of the music albums and songs sung by Hatsune Miku (初音未來) ("Miku") on the music platforms of China Mobile, China Telecom and China Unicom in the PRC. Miku, an anime character, is created by Crypton as a virtual reality female singer. Miku has already released over thousands of songs covering theme songs and interludes of television programmes as well as ringtone. The outbreak of Miku was triggered by the widespread sharing of Miku's videos on websites like Youtube and NicoNico after the publication of her trial song which had ranked top on Amazon selling platform for three weeks. Furthermore, Miku's album also debuted at number-one on the Japanese weekly album charts in 2010. As a virtual idol, Miku was produced as the leading character in various best-selling games, and she also performed in many concerts across the world, of which the record-breaking live broadcast was simultaneously shown in cinemas in various international cities.

In addition, the Group has been actively working with the strategic alliances to penetrate the licensed contents into the telecommunication sector and other digital media networks. The Group has recently achieved a milestone towards system development through the co-operation with Socle in delivering an application for Apple devices. Such application is officially authorized by the Chinese Football Association Super League ("CSL") and users can watch more than 240 edited video clips of CSL match highlights, as well as ladder positions and other statistics. It is currently ranked in the top 16 among other similar applications.

II. E-LEARNING BUSINESS

During the year, the e-Learning business recorded an increase in turnover of approximately 51% to approximately HK$10,534,000 as compared to approximately HK$6,973,000 in the previous year.

The e-Learning platform continues to perform well and increase its penetration into the primary and secondary schools in Hong Kong and Macao. In July 2011, the Group signed a contract with Educational Testing Service of the United States to be the official TOEIC® Tests (Test of English for International Communication) representative 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 thousands of TOEIC tests were delivered to over 20 secondary schools during the fourth quarter of the year.

In the first quarter of 2012, the Group signed collaborative agreements with City University of Macao, University of St Joseph, University of Macao and Macao Productivity Technology Transfer Center to provide TOEIC tests to Macao residents, leveraging the Continuing Education Fund Scheme from the Macao Education Bureau & Youth Affairs. In March 2012, the Group also appointed the Hong Kong Examinations and Assessment Authority as the official TOEIC Speaking & Writing Test Center in Hong Kong. All these collaborations will further strengthen TOEIC's presence in Hong Kong and Macao.

OUTLOOK

The Group by now has successfully built up an unprecedented digital copyright management infrastructure and the largest contemporary licensing music and professional sports content in the PRC. In addition, its business has been extended to the three major PRC telecommunication operators. With the close alliance with OSC and the strategic partnership with China Digital Entertainment, the Group is in an advantageous position to negotiate and attract more partnerships, premium licensing content and other value-added services which will strengthen and broaden the business scope of the Group. Our management is confident that the Group will generate robust growth in revenue and profit in the 2012 fiscal year.

Finally, on behalf of the Board, I would like to express my heartfelt thanks to all the shareholders, investors, and customers for their support, and to the management and all the staff of the Company for their support, patience, hard work and endeavours delivered to the Group during the year.

Hsu Tung Sheng
Chairman

Hong Kong, 28 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

I. e-Licensing Business

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FINANCIAL REVIEW

Results

The Group recorded a turnover of approximately HK$29,315,000, representing a 4.2-fold increase from approximately HK$6,973,000 in last year. The increase in turnover was mainly attributed to the sales of e-Licensing business, driven by the successful launch of the provision of music contents service, system development consultancy service and agency service.

Other operating expenses for the year is approximately HK$34,087,000 (2010: HK$10,735,000), the increase in operating expenses was mainly attributed to the impairment loss of goodwill amounting to HK$34,000,000.

The Group incurred a net loss attributable to shareholders of approximately HK$37,857,000 for the year ended 31 December 2011 compared with that of approximately HK$21,452,000 last year. As mentioned above, a provision for impairment loss of HK$34,000,000 was made for 2011. If the provision was stripped out, the loss would have been reduced to HK$3,857,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 31 December 2011, the Group had current assets of approximately HK$61,955,000 (2010: HK$75,561,000) and current liabilities of approximately HK$12,811,000 (2010: HK$26,069,000). The current assets were comprised mainly of cash and bank balances of HK$7,256,000 (2010: HK$44,645,000) and accounts and other receivables of HK$54,285,000 (2010: HK$30,507,000). The Group's current liabilities were comprised mainly of other payables of approximately HK$12,811,000 (2010: HK$4,141,000). The Group had no bank borrowings at 31 December 2011 and 2010. As at 31 December 2011, the Group had a current ratio of approximately 4.8 as compared to that of 2.9 at 31 December 2010.

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 2011, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 7 June 2011, the Group completed the acquisition of 25% equity interest in Socle Limited and its subsidiaries ("Socle Group"). Socle Group is principally engaged in the provision of the leading professional sports events and entertainment content mainly in the PRC.

Details of the acquisition are set out in the Company's circular dated 17 May 2011.

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 2011, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2011, the Group had 42 (2010: 40) full-time employees. Employee costs for the year 2011, excluding directors' emoluments, amounted to approximately HK$6,430,000 (2010: HK$10,694,000). 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 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 year ended 31 December 2011 except that the nomination committee was established on 23 March 2012.

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 2011.

BOARD OF DIRECTORS AND BOARD MEETINGS

The board members for the year ended 31 December 2011 and up to the date of this report were:

Executive directors:

Mr. Hsu Tung Sheng *(Chairman)*	*(resigned as Chief Executive Officer and redesignated as Chairman on 1 February 2011)*
Mr. Hsu Tung Chi *(Chief Executive Officer)*	*(appointed on 1 February 2011)*
Mr. Pang Hong Tao	*(resigned as Chairman on 1 February 2011)*
Ms. Au Shui Ming, Anna	

Non-executive director:

Mr. Ma She Shing, Albert	*(resigned on 1 February 2011)*

Independent non-executive directors:

Mr. Lee Kun Hung
Mr. Kwok Chi Sun, Vincent
Mr. Wong Tak Shing

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.

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. Hsu Tung Sheng		4/4
Mr. Hsu Tung Chi	*(appointed on 1 February 2011)*	4/4
Mr. Pang Hong Tao		4/4
Ms. Au Shui Ming, Anna		4/4
Mr. Ma She Shing, Albert	*(resigned on 1 February 2011)*	0/4
Mr. Kwok Chi Sun, Vincent		4/4
Mr. Lee Kun Hung		3/4
Mr. Wong Tak Shing		4/4

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. Mr. Pang Hong Tao has resigned as chairman of the Company on 1 February 2011. Mr. Hsu Tung Sheng was redesignated as chairman of the Company and has resigned as chief executive officer of the Company on 1 February 2011. Mr. Hsu Tung Chi was appointed as chief executive officer on 1 February 2011.

The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Chief Executive Officer, supported by the executive directors and senior management, is responsible for managing the Group's businesses, including the implementation of major strategies and initiatives adopted by the Board.

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. 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.

During the period under review, a meeting of the remuneration committee was held in December 2011. 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	1/1

NOMINATION OF DIRECTORS

The Company has established a nomination committee on 23 March 2012 with written terms of reference in compliance with the GEM Listing Rules. The nomination committee comprises three members, of which one executive director, namely Ms. Au Shui Ming, Anna and two independent non-executive directors namely Mr. Kwok Chi Sun, Vincent and Mr. Wong Tak Shing. The chairman of the committee is Mr. Kwok Chi Sun, Vincent.

The nomination committee is mainly responsible for making recommendations to the Board on appointment of directors and succession planning for the directors. The Board took into consideration criteria such as expertise, experience, the market situation and applicable laws and regulations when considering new director appointments.

Since the nomination committee has only been established on 23 March 2012, there was no meeting held during the period under review.

AUDITOR'S REMUNERATION

During the year ended 31 December 2011, the fees paid to the auditor in respect of audit and non-audit services provided by the auditor of the Group were as follows:

Nature of services	Amount (HK$'000)
Audit services	550
Non-audit services	531

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 Company draft annual reports and accounts, interim reports and quarterly reports to directors. 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 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	3/4
Mr. Wong Tak Shing	4/4

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2011 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.

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.

EXECUTIVE DIRECTORS

Mr. Hsu Tung Sheng, aged 44, was appointed as an executive director on 3 June 2009 and redesignated as chairman of the Company on 1 February 2011. Mr. Hsu is a brother of Mr. Hsu Tung Chi. 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 was previously an executive director and chairman of Palmpay China (Holdings) Limited, a company listed on the GEM of the Stock Exchange.

Mr. Hsu Tung Chi, aged 43, was appointed as an executive director and chief executive officer of the Company on 1 February 2011. Mr. Hsu is a brother of Mr. Hsu Tung Sheng. Mr. Hsu holds a bachelor's degree in Economics from Fu Jen Catholic University (輔仁大學) in Taiwan. Mr. Hsu Tung Chi has over 10 years' experience in advisory on management, operation and strategic planning. He was previously an executive director of Palmpay China (Holdings) Limited, a company listed on the GEM of the Stock Exchange.

Mr. Pang Hong Tao, aged 42, was appointed as an executive director of the Company in July 2007. Mr. Pang 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.

Ms. Au Shui Ming, Anna, aged 47, was appointed as an executive director in July 2007. Ms. Au 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, a member of the remuneration committee and the nomination committee of the Company.

DIRECTORS' PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwok Chi Sun, Vincent, aged 49, was appointed as independent non-executive director in October 2004. Mr. Kwok is also a member of the audit committee, the nomination committee and the 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, Evergreen International Holdings Limited and Palmpay China (Holdings) Limited, the former five named companies are listed on main board of the Stock Exchange while the last named company is listed on the GEM of the Stock Exchange.

Mr. Lee Kun Hung, aged 46, was appointed as independent non-executive director of the Company in June 2005. Mr. Lee is also 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 49, was appointed as independent non-executive director of the Company in December 2009. Mr. Wong is also a member of the audit committee and the nomination committee of the Company, was 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 2011.

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 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 consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 31.

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 2011 are set out in the consolidated statement of changes in equity on pages 35 and 36.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company does not have any reserves available for cash distribution and/or distribution in specie. In addition, the Company's share premium account had a balance of approximately HK$159,556,000 as at 31 December 2011 (2010: HK$149,585,000).

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 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REPORT

Executive directors:

Mr. Hsu Tung Sheng *(Chairman)*	*(resigned as Chief Executive Officer and redesignated as Chairman on 1 February 2011)*
Mr. Hsu Tung Chi *(Chief Executive Officer)*	*(appointed on 1 February 2011)*
Mr. Pang Hong Tao	*(resigned as Chairman on 1 February 2011)*
Ms. Au Shui Ming, Anna	

Non-executive director:

Mr. Ma She Shing, Albert	*(resigned on 1 February 2011)*

Independent non-executive directors:

Mr. Lee Kun Hung
Mr. Kwok Chi Sun, Vincent
Mr. Wong Tak Shing

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. Lee Kun Hung and shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors, 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' INTERESTS IN CONTRACTS

Apart from those transaction as disclosed in note 34 to the consolidated financial statements, 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' REMUNERATION

Directors' remuneration is subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Company. Details of the remuneration of the Directors are set out in note 9 to the consolidated financial statements.

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

As at 31 December 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 rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in Shares

Name of director	Nature of interests	Number or attributable number of shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Hsu Tung Sheng	Beneficial	19,000,000 (L)	0.84%
Mr. Hsu Tung Chi *(appointed on 1 February 2011) (Note 1)*	Beneficial Interest of controlled corporation	19,000,000 (L) 72,984,893 (L)	0.84% 3.24%
Daily Technology Company Limited *(Note 1)*	Beneficial	72,984,893(L)	3.24%
Mr. Pang Hong Tao	Beneficial	42,800,000 (L)	1.90%
Ms. Au Shui Ming, Anna	Beneficial	54,500,000 (L)	2.42%

(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 72,984,893 shares. Under the SFO, Mr. Hsu is deemed to be interested in 72,984,893 shares.

(ii) Interest in share options

Name of director	Nature of interests	Number of share options granted	Approximate percentage of interests
Mr. Hsu Tung Sheng	Beneficial	15,000,000 (L)	0.67%
Mr. Hsu Tung Chi	Beneficial	15,000,000 (L)	0.67%
Mr. Pang Hong Tao	Beneficial	8,000,000 (L)	0.36%
Ms. Au Shui Ming, Anna	Beneficial	8,000,000 (L)	0.36%

(L) denotes long position

(iii) Interest in underlying shares

Name of shareholder	Nature of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Mr. Hsu Tung Chi	Beneficial	Convertible bonds *(Note 1)*	122,222,222 (L)	5.42%
	Interest of controlled corporation	Convertible bonds *(Note 1)*	254,287,234 (L)	11.29%
Daily Technology Company Limited	Beneficial	Convertible bonds *(Note 1)*	254,287,234 (L)	11.29%

(L) denotes long position

Note:

1. According to the sale and purchase agreement entered into among Cheer Plan Limited ("Cheer Plan"), a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi ("Mr. Hsu") and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will allot a maximum of 222,222,222 convertible bonds to Mr. Hsu. 100,000,000 convertible bonds were redeemed by the Company. As at 31 December 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 allotted 286,202,127 convertible bonds to Daily Technology. Daily Technology subsequently exercised the conversion rights on 11 October 2011 and the convertible bonds in the principal amount of HK$3,000,000 were converted into 31,914,893 shares of the Company. Under the SFO, Mr. Hsu is deemed to be interested in the outstanding 254,287,234 convertible bonds.

Save as disclosed above, as at 31 December 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 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 31 December 2011	Exercise price HK$	Grant date	Exercisable period
Directors						
Mr. Hsu Tung Sheng	15,000,000	–	15,000,000	0.44	13/12/2010	13/12/2010-12/12/2013
Mr. Hsu Tung Chi	15,000,000	–	15,000,000	0.475	16/12/2010	16/12/2010-15/12/2013
Mr. Pang Hong Tao	8,000,000	–	8,000,000	0.44	13/12/2010	13/12/2010-12/12/2013
Ms. Au Shui Ming, Anna	8,000,000	–	8,000,000	0.44	13/12/2010	13/12/2010-12/12/2013
Employees	48,000,000	–	48,000,000	0.44	13/12/2010	13/12/2010-12/12/2013
	4,000,000	–	4,000,000	0.475	16/12/2010	16/12/2010-15/12/2013
	98,000,000	–	98,000,000			

Particulars of the Company's share option scheme are set out in note 30 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 December 2011, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Interest in shares

Name of substantial shareholder	Nature of interests	Number or attributable number of shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Lau Kim Hung, Jack *(Note 1)*	Interest of controlled corporations	497,698,238 (L)	22.09%
	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)	22.09%
Manciple Enterprises Limited *(Note 1)*	Beneficial	482,698,238 (L)	21.42%
Eagle Strategy Limited *(Note 1)*	Beneficial	15,000,000 (L)	0.67%
Ms. Chuang Meng Hua *(Note 2)*	Deemed	91,984,893 (L)	4.08%
Decade Talent Limited *(Note 3)*	Beneficial	75,000,000 (L)	3.33%
Mr. Wan Wah Chung *(Note 3)*	Beneficial	3,000,000 (L)	0.13%
	Interest of controlled corporation	75,000,000 (L)	3.33%
	Deemed	700,000 (L)	0.03%
Ms. Yeung Wing Suen *(Note 3)*	Beneficial	700,000 (L)	0.03%
	Deemed	78,000,000 (L)	3.46%

(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. Ms. Chuang Meng Hua is deemed to be interested in 91,984,893 shares by virtue of being the spouse of Mr. Hsu Tung Chi who is the executive director and chief executive officer of the Company.

3. Mr. Wan Wah Chung ("Mr. Wan") beneficially owns 3,000,000 shares. Decade Talent Limited ("Decade Talent") is wholly and beneficially owned by 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. Yeung Wing Suen ("Ms. Yeung"), the wife of Mr. Wan, is personally interested in 700,000 shares. Being spouses, Mr. Wan and Ms. Yeung 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
Ms. Chuang Meng Hua	Deemed	Share Options *(Note 1)*	15,000,000 (L)	0.67%
	Deemed	Convertible bonds *(Note 1)*	376,509,456 (L)	16.71%
Decade Talent Limited	Beneficial	Warrants *(Note 2)*	145,000,000 (L)	6.44%
Mr. Wan Wah Chung	Interest of controlled corporation	Warrants *(Note 2)*	145,000,000 (L)	6.44%
Ms. Yeung Wing Suen	Deemed	Warrants *(Note 2)*	145,000,000 (L)	6.44%

(L) denotes long position

Note:

1. Ms. Chuang Meng Hua is deemed to be interested in 15,000,000 share options and 376,509,456 convertible bonds by virtue of being the spouse of Mr. Hsu Tung Chi, who is the executive director and chief executive officer of the Company.

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

Save as disclosed above, as at 31 December 2011, the directors were not aware of any other person (other than the directors and the chief executive the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

COMPETING INTERESTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the company and the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

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.

CONTINUING CONNECTED TRANSACTIONS

On 11 February 2010, the Company entered into a loan agreement (the "Loan Agreement") with Far Glory Limited ("Far Glory"), (a non-wholly owned subsidiary of the Company) 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.

On 23 July 2010, the Company entered into a supplemental agreement (the "Supplemental Agreement") with Far Glory, pursuant to which the Company 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.

The foresaid continuing connected transaction has been reviewed by independent non-executive directors. The independent non-executive directors confirmed that the continuing connected transaction set out in above was entered into:

1. in the ordinary and usual course of business of the Company;

2. either on normal commercial terms or on terms no less favorable to the Company than terms available to or from independent third parties; and

3. in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules in respect of the above transactions.

Save as disclosed herein were no other transactions required to be disclosed as connected transactions and/or continuing connected transactions in accordance with the requirements of the GEM Listing Rule.

DIRECTORS' REPORT

EVENTS AFTER THE REPORTING PERIOD

In January 2012, the Group entered into an agreement with third parties to acquire 20% equity interest in a company incorporated in the British Virgin Islands at an aggregate consideration of HK$400,000. The target company will be principally engaged in the promotion, sales and distribution of licensed digital music contents in the PRC.

In January 2012, a warrant holder subscribed 15,000,000 ordinary shares of the Company at the subscription price of HK$0.272 for a total cash consideration, before expenses, of HK$4,080,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest customer and the five largest customers accounted for 12.1% (2010: 8.5%) and 25.8% (2010: 15.7%) respectively, of the Group's total turnover.

During the year, the Group's largest supplier and the five largest suppliers accounted for 53.6% (2010: 31.6%) and 82.5% (2010: 67.4%) respectively, of the Group's total purchases.

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 consolidated financial statements of the Company for the year ended 31 December 2011 were audited by Mazars CPA Limited, Certified Public Accountants. A resolution will be submitted to the annual general meeting to re-appoint Mazars CPA Limited as auditor of the Company.

On behalf of the Board

Hsu Tung Sheng
CHAIRMAN

28 March 2012

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 (together the "Group") set out on pages 31 to 100, which comprise the consolidated and the Company's statement of financial position as at 31 December 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 of the Group as at 31 December 2011 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, 28 March 2012

Eunice Y M Kwok
Practising Certificate number: P04604

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	5	**29,315**	6,973
Cost of services rendered and cost of good sold		**(11,106)**	(2,244)
Gross profit		**18,209**	4,729
Other revenue	5	**1,389**	–
Other income	6	**631**	40
Selling and distribution costs		**(539)**	(363)
Administrative and other expenses		**(21,718)**	(21,451)
Other operating expenses		**(34,087)**	(10,735)
Finance costs	7	**(1,310)**	(1,247)
Share of results of associates	18	**2,123**	–
Loss before taxation	8	**(35,302)**	(29,027)
Income tax expense	11	**(49)**	(65)
Loss for the year		**(35,351)**	(29,092)
Other comprehensive income			
Currency translation differences		**180**	169
Income tax relating to other comprehensive income		**–**	–
		180	169
Total comprehensive loss for the year		**(35,171)**	(28,923)
(Loss) Profit attributable to:			
Equity holders of the Company	12	**(37,857)**	(21,452)
Non-controlling interests		**2,506**	(7,640)
		(35,351)	(29,092)
Total comprehensive (loss) income attributable to:			
Equity holders of the Company		**(37,765)**	(21,366)
Non-controlling interests		**2,594**	(7,557)
		(35,171)	(28,923)
Loss per share	14		
Basic and diluted		**HK(1.71) cents**	HK(1.03) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	15	**6,607**	54
Intangible assets	16	**3,598**	–
Interest in associates	18	**27,348**	–
Interest in jointly controlled entities	19	**–**	–
Loans to and due from jointly controlled entities	21	**9,748**	15,706
Goodwill	20	**75,296**	109,296
		122,597	125,056
Current assets			
Inventories	22	**300**	246
Accounts and other receivables	23	**54,285**	30,507
Tax recoverable		**114**	163
Bank balances and cash	24	**7,256**	44,645
		61,955	75,561
Current liabilities			
Other payables	25	**12,811**	4,141
Convertible bonds	26	**–**	3,928
Earn-out payable	27	**–**	18,000
		12,811	26,069
Net current assets		**49,144**	49,492
Total assets less current liabilities		**171,741**	174,548
Non-current liabilities			
Convertible bonds	26	**24,246**	22,174
Earn-out payable	27	**18,000**	–
Deferred tax liabilities	33	**4**	4
		42,250	22,178
NET ASSETS		**129,491**	152,370

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	28	**112,655**	109,754
Reserves		**8,330**	36,704
Equity attributable to equity holders of the Company		**120,985**	146,458
Non-controlling interests		**8,506**	5,912
TOTAL EQUITY		**129,491**	152,370

Approved and authorised for issue by the Board of Directors on 28 March 2012

Hsu Tung Sheng
Director

Hsu Tung Chi
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Interest in subsidiaries	17	**106,142**	100,824
Loans to a subsidiary	34	**40,000**	31,000
		146,142	131,824
Current assets			
Accounts and other receivables	23	**2,902**	439
Bank balances and cash	24	**5,082**	40,035
		7,984	40,474
Current liabilities			
Other payables	25	**643**	447
Convertible bonds	26	**–**	3,928
		643	4,375
Net current assets		**7,341**	36,099
Total assets less current liabilities		**153,483**	167,923
Non-current liabilities			
Convertible bonds	26	**24,246**	22,174
NET ASSETS		**129,237**	145,749
Capital and reserves			
Share capital	28	**112,655**	109,754
Reserves	29	**16,582**	35,995
TOTAL EQUITY		**129,237**	145,749

Approved and authorised for issue by the Board of Directors on 28 March 2012

Hsu Tung Sheng	**Hsu Tung Chi**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to equity holders of the Company											
		Reserves										
	Share capital HK$'000	Share premium HK$'000 *(note 29(i))*	*Special reserve HK$'000	Warrant reserve HK$'000 *(note 29(vi))*	Foreign currency translation reserve HK$'000 *(note 29(vii))*	Share option reserve HK$'000 *(note 29(iii))*	Convertible bonds reserve HK$'000 *(note 29(v))*	Accumulated losses HK$'000	Total reserves HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	97,029	100,826	10,084	–	–	7,645	6,260	(120,401)	4,414	101,443	13,205	114,648
Loss for the year	–	–	–	–	–	–	–	(21,452)	(21,452)	(21,452)	(7,640)	(29,092)
Other comprehensive income												
Foreign currency translation differences	–	–	–	–	86	–	–	–	86	86	83	169
Total comprehensive income (loss) for the year	–	–	–	–	86	–	–	(21,452)	(21,366)	(21,366)	(7,557)	(28,923)
Transactions with equity holders												
Placing new shares	5,175	23,081	–	–	–	–	–	–	23,081	28,256	–	28,256
Share placing expenses	–	(1,060)	–	–	–	–	–	–	(1,060)	(1,060)	–	(1,060)
Employee share-based payment	–	–	–	–	–	10,323	–	–	10,323	10,323	–	10,323
Exercise of share options	6,550	22,278	–	–	–	(5,717)	–	–	16,561	23,111	–	23,111
Issue of unlisted warrants	–	–	–	311	–	–	–	–	311	311	–	311
Issue of shares upon exercise of unlisted warrants	1,000	4,460	–	(20)	–	–	–	–	4,440	5,440	–	5,440
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	264	264
	12,725	48,759	–	291	–	4,606	–	–	53,656	66,381	264	66,645
At 31 December 2010	109,754	149,585	10,084	291	86	12,251[#]	6,260	(141,853)	36,704	146,458	5,912	152,370

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to equity holders of the Company											
		Reserves										
	Share capital HK$'000	Share premium HK$'000 (note 29(i))	*Special reserve HK$'000	Warrant reserve HK$'000 (note 29(vi))	Foreign currency translation reserve HK$'000 (note 29(vii))	Share option reserve HK$'000 (note 29(iii))	Convertible bonds reserve HK$'000 (note 29(v))	Accumulated losses HK$'000	Total reserves HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011	109,754	149,585	10,084	291	86	12,251	6,260	(141,853)	36,704	146,458	5,912	152,370
Loss for the year	-	-	-	-	-	-	-	(37,857)	(37,857)	(37,857)	2,506	(35,351)
Other comprehensive income												
Foreign currency translation differences	-	-	-	-	92	-	-	-	92	92	88	180
Total comprehensive income (loss) for the year	-	-	-	-	92	-	-	(37,857)	(37,765)	(37,765)	2,594	(35,171)
Transactions with equity holders												
Extinguishment of convertible bonds	-	-	-	-	-	-	(434)	-	(434)	(434)	-	(434)
Reissuance of convertible bonds	-	-	-	-	-	-	504	-	504	504	-	504
Conversion of convertible bonds	1,596	1,619	-	-	-	-	(650)	-	969	2,565	-	2,565
Issue of consideration shares for acquisition of associates	1,305	8,352	-	-	-	-	-	-	8,352	9,657	-	9,657
	2,901	9,971	-	-	-	-	(580)	-	9,391	12,292	-	12,292
At 31 December 2011	112,655	159,556	10,084	291	178	12,251#	5,680	(179,710)	8,330	120,985	8,506	129,491

* 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 share option reserve was an amount of HK$1,928,000 (2010: HK$1,928,000) relating to the share options lapsed in previous years due to resignation of certain employees.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(35,302)**	(29,027)
Depreciation and amortisation		**324**	88
Employee share-based payment		**–**	10,323
Bad debt written off		**–**	11
Impairment loss of deposits paid		**–**	10,735
Write-down of inventories		**87**	–
Impairment loss of goodwill		**34,000**	–
Gain on extinguishment of convertible bonds		**(436)**	–
Gain on disposal of subsidiaries		**–**	(5)
Finance costs		**1,310**	1,247
Interest income		**(1,395)**	(11)
Share of results of associates		**(2,123)**	–
Changes in working capital:			
Inventories		**(141)**	(103)
Accounts and other receivables		**(23,778)**	(27,994)
Other payables		**3,548**	637
Cash used in operating activities		**(23,906)**	(34,099)
Interest paid		**(54)**	–
Income taxes paid		**–**	(437)
Net cash used in operating activities		**(23,960)**	(34,536)
INVESTING ACTIVITIES			
Acquisition of interest in associates		**(15,568)**	–
Purchase of property, plant and equipment		**(6,743)**	(42)
Purchase of intangible assets		**(3,659)**	–
Net cash inflow from disposal of subsidiaries		**–**	184
Revolving loans and advance to jointly controlled entities		**(3,422)**	(6,251)
Repayment of revolving loans from jointly controlled entities		**9,380**	–
Interest received		**1,395**	11
Net cash used in investing activities		**(18,617)**	(6,098)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
FINANCING ACTIVITIES			
Interest on convertible bonds paid		**(41)**	–
Proceeds from issue of share capital		**–**	28,256
Proceeds from shares issued under share-based payment scheme		**–**	23,111
Proceeds from issue of unlisted warrants		**–**	311
Proceeds from shares issued upon exercise of unlisted warrants		**–**	5,440
Advance from a related party		**5,122**	–
Shares issue expenses		**–**	(1,060)
Net cash from financing activities		**5,081**	56,058
Net (decrease) increase in cash and cash equivalents		**(37,496)**	15,424
Cash and cash equivalents at beginning of reporting period		**44,645**	29,052
Effect of foreign exchange rate changes, net		**107**	169
Cash and cash equivalents at end of reporting period	24	**7,256**	44,645

MAJOR NON-CASH TRANSACTION

As mentioned in notes 18 and 28 to the consolidated financial statements, part of consideration for the acquisition of 25% equity interest in associates was settled by the issue of 26,100,503 ordinary shares of the Company at a price of HK$0.37 per share, amounted to HK$9,657,000.

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 consolidated financial statements.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards 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 consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2010 consolidated financial statements except for the adoption of certain new/revised HKFRSs effective from the current year that are relevant to the Company as detailed in note 3 to the consolidated financial statements.

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

3. PRINCIPAL ACCOUNTING POLICIES

Adoption of new/revised HKFRSs

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 was revised to include a new definition of related party and to provide a partial exemption from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

(a) a government that has control, joint control or significant influence over the reporting entity; and

(b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Adoption of new/revised HKFRSs *(Continued)*

HKAS 24 (Revised) – Related Party Disclosures (Continued)
The Group adopted the new definition in its accounting policies but such adoption does not have an effect on the disclosures made in the consolidated financial statements.

Improvements to HKFRSs 2010 – Improvements to HKFRSs 2010
The improvements comprise a number of improvements to HKFRSs including the following that are considered to be relevant to the Group:

Amendments to HKAS 1 (Revised): Presentation of Financial Statements: Clarification of statement of changes in equity
The Amendments clarify that the reconciliation of each components of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements. The Group has decided to continue presenting the reconciliation on the face of the statement of changes in equity.

Basis of measurement

The measurement basis used in the preparation of these consolidated 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.

Non-controlling interests 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. The non-controlling interests in the acquiree are measured initially either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis.

Allocation of total comprehensive income
Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income is attributed to the equity holders of the Company and the non-controlling interests on the basis of present ownership interest even if it results in the non-controlling interests having a deficit balance.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in ownership interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary is recognised on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary is accounted for as a financial asset, associate, jointly controlled entity or others as appropriate from the date when control is lost.

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Associates *(Continued)*

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.

On the loss of significant influence, the Group remeasures any retained interest in the former associate at fair value. The difference between the fair value of any retained investment and proceeds from disposing of the part interest in the associate and the carrying amount of the investment at the date when significant influence is lost is recognised in profit or loss. In addition, all amounts previously recognised in other comprehensive income in respect of the former associate are accounted for on the same basis as would be required if the former associate had directly disposed of the related assets or liabilities. The fair value of the retained interest on the date of ceasing to be an associate is regarded as the fair value on initial recognition as a financial asset subsequently.

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.

On the loss of joint control, the Group remeasures any retained interest in the former jointly controlled entity at fair value. The difference between the fair value of any retained investment and proceeds from disposing of the part interest in the jointly controlled entity and the carrying amount of the investment at the date when joint control is lost is recognised in profit or loss. In addition, all amounts previously recognised in other comprehensive income in respect of the former jointly controlled entity are accounted for on the same basis as would be required if the former jointly controlled entity had directly disposed of the related assets or liabilities. The fair value of the retained interest on the date of ceasing to be a jointly controlled entity is regarded as the fair value on initial recognition as a financial asset subsequently.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a subsidiary is measured at the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired subsidiary. Goodwill arising on an acquisition of an associate or a jointly controlled entity is measured at the excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the acquired associate or 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.

In respect of a subsidiary, any excess of the acquisition date amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, if any, after reassessment, is recognised immediately in profit or loss as a bargain purchase. In respect of an associate or a jointly controlled entity, any excess of the Group's share of its net fair value of identifiable assets and liabilities over the cost of investment is recognised immediately as income.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated 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 profit or loss during the period 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:

Leasehold improvements	10%
Furniture, fixtures and office equipment	18% – 20%
Computer equipment	33 1/3%

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

Intangible assets

Software license rights
The initial cost of acquiring software license rights is capitalised. Software license rights with finite useful lives are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost less accumulated impairment losses on the straight-line basis over their estimated useful lives of 5 years from the date on which they are available for use.

Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over its useful life.

Financial instruments

Recognition and derecognition
Financial assets and financial liabilities are recognised when and only 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 and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) 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 when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement
Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Loans and receivables

Loans and receivables including loans to and amount due from jointly controlled entities and accounts 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.

Financial liabilities

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.

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Convertible bonds

The component of a 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 a convertible bond, the fair value of the liability component is determined using 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 bonds *(Continued)*

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bonds reserve within 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 bonds reserve is transferred to share premium or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bonds 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.

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.

Sale of goods is recognised on transfer of risk and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

The service income relating to e-Licensing business is recognised when 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, investments in subsidiaries, associates and 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.

For investments in associates and jointly controlled entities recognised using the equity method, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount. The impairment loss is revised if there has been a favourable change in the estimates uses to determine the recoverable amount.

The accounting policy for recognition and reversal of the impairment loss for goodwill is stated in the accounting policy for goodwill in the earlier part of this note.

Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Employee benefits

Short-term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

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 fully 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled transactions (Continued)

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.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in a reserve within equity.

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 consolidated 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.

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.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of the parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated 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.

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 consolidated 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

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 accounts receivable. 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, associates 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 consolidated financial statements.

Impairment of prepayments to licensors

Included in prepayments to licensors is a prepaid license fee of HK$36,623,000 (2010: HK$24,080,000), which would expire in March 2012 according to the original contract entered into in December 2010. Because of the unexpected delay in commencing the e-Licensing business, the directors have been negotiating with the licensor of music contents for an extension of the license period to which the prepayment is related to. Subsequent to the end of the reporting period, the licensor has agreed to extend the license period to May 2012 and verbally agreed to further extend the license period to May 2013. Although no formal written agreement has yet been signed as of the date of these consolidated financial statements, the directors consider the extension of the license period to May 2013 highly probable and the music downloading business has been processing well since its launch in February 2011. Accordingly, no impairment loss on the prepayment to licensor of HK$36,623,000 as at 31 December 2011 is considered necessary.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Future changes in HKFRSs

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

Amendments to HKFRS 1 (Revised)	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
Amendments to HKFRS 7	*Disclosures – Transfer of Financial Assets* [1]
Amendments to HKAS 12	*Deferred Tax: Recovery of Underlying Assets* [2]
Amendments to HKAS 1 (Revised)	*Presentation of Items of Other Comprehensive Income* [3]
HKAS 19 (2011)	*Employee Benefits* [4]
HKAS 27 (2011)	*Separate Financial Statements* [4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [4]
HKFRS 10	*Consolidated Financial Statements* [4]
HKFRS 11	*Joint Arrangements* [4]
HKFRS 12	*Disclosures of Interests with Other Entities* [4]
HKFRS 13	*Fair Value Measurement* [4]
Amendments to HKFRS 7	*Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
Amendments to HKAS 32	*Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [5]
HK(IFRIC) – Int 20	*Stripping Cost in the Production Phase of a Surface Mine* [4]
HKFRS 9	*Financial Instruments* [6]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

The directors are in the process of assessing the possible impact on the future adoption of these new and revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Group's consolidated 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 two reporting segments. No operating segments have been aggregated to form the following reporting segments.

- the e-Learning business segment which provides e-Learning programs and development of related products; and

- the e-Licensing business segment which engaged in the provision of services for the distribution of copyright-protected items and other entertainment-related business.

4. SEGMENTAL INFORMATION *(Continued)*

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results from continued operations by reportable segment.

	2011			2010		
	e-Learning business HK$'000	e-Licensing business HK$'000	Consolidated HK$'000	e-Learning business HK$'000	e-Licensing business HK$'000	Consolidated HK$'000
Segment revenue						
Sale to external customers	10,534	18,781	29,315	6,973	–	6,973
Loan interest income from a jointly controlled entity	–	1,389	1,389	–	–	–
	10,534	20,170	30,704	6,973	–	6,973
Profit (Loss) for the year before impairment loss of goodwill	214	6,339	6,553	353	(11,815)	(11,462)
Impairment loss of goodwill	(3,000)	(31,000)	(34,000)	–	–	–
Segment results	(2,786)	(24,661)	(27,447)	353	(11,815)	(11,462)
Unallocated income			631			35
Unallocated expenses			(9,299)			(16,358)
Unallocated finance costs			(1,310)			(1,247)
Gain on disposal of subsidiaries			–			5
Share of results of associates			2,123			–
Loss before taxation			(35,302)			(29,027)
Taxation			(49)			(65)
Loss for the year			(35,351)			(29,092)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

4. SEGMENTAL INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

The accounting policies of the reporting segments are the same as the Group's accounting policies described in note 3 to the consolidated financial statements. Segment results represents the results achieved by each segment without allocation of central administration costs including directors' emoluments, share of results of associates and jointly controlled entities, investment and other income, other gains and losses, finance costs, and income tax expenses. This is the measurement method reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(b) Segment assets and liabilities

	2011			2010		
	e-Learning business HK$'000	**e-Licensing business HK$'000**	**Consolidated HK$'000**	e-Learning business HK$'000	e-Licensing business HK$'000	Consolidated HK$'000
Segment assets	**7,157**	**59,629**	**66,786**	6,054	29,314	35,368
Goodwill	**7,751**	**67,545**	**75,296**	10,751	98,545	109,296
Due from jointly controlled entities	**–**	**9,748**	**9,748**	–	15,706	15,706
Unallocated assets			**32,722**			40,247
Consolidated total assets			**184,552**			200,617
Segment liabilities	**4,111**	**8,169**	**12,280**	3,227	471	3,698
Unallocated liabilities			**42,781**			44,549
Consolidated total liabilities			**55,061**			48,247

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to operating segments other than interests in associates; and
- All liabilities are allocated to the sales/service activities of individual segments other than earn-out payable and convertible bonds.

4. SEGMENTAL INFORMATION *(Continued)*

(c) Other segment information

	2011			2010		
	e-Learning business HK$'000	**e-Licensing business HK$'000**	**Consolidated HK$'000**	e-Learning business HK$'000	e-Licensing business HK$'000	Consolidated HK$'000
Other segment information						
Amortisation of intangible assets	**–**	**61**	**61**	–	–	–
Depreciation of property, plant and equipment	**23**	**240**	**263**	88	–	88
Acquisition of intangible assets	**–**	**3,659**	**3,659**	–	–	–
Capital expenditure	**49**	**6,694**	**6,743**	12	30	42

(d) Geographic information

The Group's operations are principally located in Hong Kong and the PRC.

The Group's revenue from continuing operations from external customers by locations of operations and information about its non-current assets by locations of assets are detailed below:

	Revenue from external customers		Non-current assets	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Hong Kong	**10,534**	6,973	**10,800**	10,775
PRC	**18,781**	–	**111,797**	114,281
	29,315	6,973	**122,597**	125,056

4. SEGMENTAL INFORMATION *(Continued)*

(e) Information about major customers

Revenue from external customers contributing over 10% of total revenue from the Group's e-Licensing business segment are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Customer A	**7,568**	–
Customer B	**5,488**	–
Customer C	**3,150**	–
	16,206	–

Other than as disclosed above, no other sales to a single customer of the Group accounted for over 10% of total revenue of the Group for both 2010 and 2011.

5. TURNOVER AND REVENUE

Turnover generated from e-Learning business segment represents subscription fees for the on-line education programs and sale of learning products during the year. Turnover generated from e-Licensing business segment represents revenue from the provision of services for distribution of copyright-protected items and other entertainment-related business and the related consultancy services.

5. TURNOVER AND REVENUE *(Continued)*

An analysis of the Group's turnover and revenue during the year is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Turnover		
e-Learning business		
– Subscription income	**9,142**	5,448
– Sale of learning products	**1,392**	1,525
	10,534	6,973
e-Licensing business		
– Provision of music contents service income	**7,568**	–
– System development consultancy service income	**8,063**	–
– Agency service income	**3,150**	–
	18,781	–
	29,315	6,973
Other revenue		
Loan interest income from jointly controlled entity	**1,389**	–
Total revenue	**30,704**	6,973

6. OTHER INCOME

	Group	
	2011	2010
	HK$'000	HK$'000
Bank interest income	**6**	11
Gain on disposal of subsidiaries	**–**	5
Gain on extinguishment of convertible bonds	**436**	–
Sundry income	**189**	24
	631	40

7. FINANCE COSTS

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on convertible bonds	**1,256**	1,247
Other loan interest expenses	**54**	–
	1,310	1,247

8. LOSS BEFORE TAXATION

This is stated after charging:

	Group	
	2011	2010
	HK$'000	HK$'000
Employee benefits expenses (including directors' remuneration)		
Salaries and allowances	**7,334**	4,621
Contribution to defined retirement schemes	**931**	129
Employee share-based payment	**–**	10,323
	8,265	15,073
Auditor's remuneration	**550**	380
Amortisation of intangible assets included in administrative and other expenses	**61**	–
Cost of good sold	**842**	580
Cost of services rendered	**10,264**	1,664
Depreciation of property, plant and equipment	**263**	88
Exchange loss, net	**67**	88
Impairment loss of deposits paid	**–**	10,735
Write-down of inventories	**87**	–
Impairment loss of goodwill included in other operating expenses	**34,000**	–
Operating lease payments on hire of equipment	**54**	29
Operating lease payments on premises	**492**	–
Research and development costs	**652**	292

9. DIRECTORS' REMUNERATION

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

	Directors' fees HK$'000	Salaries and allowances HK$'000	Employee share-based payment HK$'000	Contribution to defined retirement schemes HK$'000	Total HK$'000
Year ended 31 December 2011					
Executive directors					
Au Shui Ming, Anna	120	480	–	12	612
Hsu Tung Chi (appointed on 1 February 2011)	200	388	–	–	588
Hsu Tung Sheng	210	–	–	–	210
Pang Hong Tao	240	–	–	–	240
	770	868	–	12	1,650
Non-executive director					
Ma She Shing, Albert (resigned on 1 February 2011)	5	–	–	–	5
Independent non-executive directors					
Kwok Chi Sun, Vincent	60	–	–	–	60
Lee Kun Hung	60	–	–	–	60
Wong Tak Shing	60	–	–	–	60
	180	–	–	–	180
	955	868	–	12	1,835

9. DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees HK$'000	Salaries and allowances HK$'000	Employee share-based payment HK$'000	Contribution to defined retirement schemes HK$'000	Total HK$'000
Year ended 31 December 2010					
Executive directors					
Au Shui Ming, Anna	120	432	830	12	1,394
Hsu Tung Sheng	120	–	1,555	–	1,675
Pang Hong Tao	240	–	830	–	1,070
	480	432	3,215	12	4,139
Non-executive director					
Ma She Shing, Albert	60	–	–	–	60
Independent non-executive directors					
Kwok Chi Sun, Vincent	60	–	–	–	60
Lee Kun Hung	60	–	–	–	60
Wong Tak Shing	60	–	–	–	60
	180	–	–	–	180
	720	432	3,215	12	4,379

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2011 and 2010. 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 years ended 31 December 2011 and 2010.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2010: two) directors, details of whose remuneration are set out in note 9 to the consolidated financial statements above. Details of the remuneration of the remaining three (2010: three) highest paid individuals, who are not directors, for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries and allowances	**983**	305
Employee share-based payment	**–**	4,689
	983	4,994

The above three (2010: three) highest paid individuals fell within the following bands:

	Number of individuals	
Band	**2011**	2010
Nil to HK$1,000,000	**3**	–
HK$1,000,001 to HK$2,000,000	**–**	3
	3	3

No remuneration was paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office for the years ended 31 December 2011 and 2010.

11. 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 year.

PRC Enterprise Income Tax ("EIT") has not been provided as the PRC subsidiary's estimated assessable profits for the year are wholly absorbed by unrelieved tax losses brought forward from previous years. In 2010, EIT has not been provided as the PRC subsidiary incurred a loss for taxation purpose.

		Group	
		2011	2010
	Note	**HK$'000**	HK$'000
Current tax			
Hong Kong Profits Tax			
Current year		**49**	78
Overprovision in prior year		**–**	(1)
		49	77
Deferred taxation	*33*	**–**	(12)
Tax expense for the year		**49**	65

Reconciliation of effective tax rate

	Group	
	2011	2010
	%	%
Income tax at applicable tax rate	**(15.7)**	(16.7)
Share of results of associates	**(1.0)**	–
Non-deductible expenses	**17.0**	16.4
Non-taxable revenue	**(1.5)**	–
Unrecognised tax losses	**3.6**	0.5
Unrecognised temporary differences	**(0.1)**	–
Utilisation of previously unrecognised tax losses	**(1.0)**	–
Others	**(1.2)**	–
Effective tax rate for the year	**0.1**	0.2

The applicable tax rate is the weighted average of tax rates prevailing in the territories in which the Group's entities operate.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2011 includes a loss of HK$28,804,000 (2010: HK$22,763,000) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the year (2010: Nil).

14. 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 year as follows:

	2011 **HK$'000**	2010 HK$'000
Loss		
Loss attributable to equity holders of the Company	**(37,857)**	(21,452)

	2011 **'000**	2010 '000
Number of shares		
Weighted average number of ordinary shares in issue during the year	**2,216,970**	2,081,853

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, share options and unlisted warrants have anti-dilutive effects on the basic loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
Cost				
At 1 January 2010	–	–	365	365
Additions	–	–	42	42
At 31 December 2010 and 1 January 2011	**–**	**–**	**407**	**407**
Effect of foreign currency exchange differences	**65**	**5**	**5**	**75**
Additions	**5,862**	**441**	**440**	**6,743**
At 31 December 2011	**5,927**	**446**	**852**	**7,225**
Accumulated depreciation				
At 1 January 2010	–	–	265	265
Depreciation	–	–	88	88
At 31 December 2010 and 1 January 2011	**–**	**–**	**353**	**353**
Effect of foreign currency exchange differences	**2**	**–**	**–**	**2**
Depreciation	**199**	**7**	**57**	**263**
At 31 December 2011	**201**	**7**	**410**	**618**
Net book value				
At 31 December 2011	**5,726**	**439**	**442**	**6,607**
At 31 December 2010	–	–	54	54

16. INTANGIBLE ASSETS

Group

	Software license right HK$'000
Cost	
Additions	**3,659**
At 31 December 2011	**3,659**
Accumulated amortisation	
Amortisation	**61**
At 31 December 2011	**61**
Net book value	
At 31 December 2011	**3,598**
At 31 December 2010	–

17. INTEREST IN SUBSIDIARIES

		Company	
	Note	**2011 HK$'000**	2010 HK$'000
Unlisted shares, at cost		**1**	1
Due from subsidiaries	*(i)*	**180,122**	153,665
Provision for impairment losses		**(73,981)**	(52,842)
		106,141	100,823
		106,142	100,824

17. INTEREST IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ kind of legal entity	Place of operation	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Rise Assets Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$1	100%	–	Investment holding
Wonder Link Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$1	–	100%	Investment holding
Start Bright Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$200	–	51%	Investment holding
Huge Step Management Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$100	–	51%	Investment holding
Palm Learning Co. Limited	Hong Kong/ limited liability company	Hong Kong	Ordinary HK$1	–	51%	Inactive
Smart Education Company Limited	Hong Kong/ limited liability company	Hong Kong	Ordinary HK$100	–	51%	Development and provision of e-Learning services
Cheer Plan Limited ("Cheer Plan")	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$1	–	100%	Investment holding
Far Glory Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$10,900	–	51%	Investment holding
Great Wave Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$1	–	51%	Investment holding

17. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ kind of legal entity	Place of operation	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Sky Asia Investments Limited	Hong Kong/ limited liability company	Hong Kong	Ordinary HK$1	–	51%	Distribution of copyright-protected items and other entertainment-related business
Beijing LianYiHuiZhong Technology Company Limited	The PRC/ foreign wholly-owned enterprise	The PRC	Paid-up capital HK$6,000,000	–	51%	Distribution of copyright-protected items and other entertainment-related business
Marvel Cosmos Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$1	–	100%	Investment holding

None of the subsidiaries had any debt securities outstanding at the end of the reporting period, or at any time during the year.

(i) Due from subsidiaries

The amounts due are unsecured, interest-free and have no fixed repayment term. The directors expected the amount will not be realised in the next twelve months of the end of the reporting period. The carrying values of the amounts due from subsidiaries approximate their fair values.

Impairment losses were made in respect of the amounts due from certain subsidiaries because these subsidiaries have continuously generated substantial losses and the directors are of the opinion that the probability to recover fully the amounts due from these subsidiaries would be remote.

18. INTEREST IN ASSOCIATES

	Group	
	2011	2010
	HK$'000	HK$'000
Goodwill	**21,518**	–
Share of net assets	**5,830**	–
	27,348	–

Particulars of the associates at the end of the reporting period are as follows:

Name of associate	Place of incorporation/ kind of legal entity	Place of operation	Nominal value of issued ordinary share/ registered capital	Effective percentage of equity indirectly attributable to the Company	Principal activities
Socle Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary with no par value	25%	Investment holding
Imagine Communications Holding Limited	Cayman Islands/ limited liability company	Hong Kong	Ordinary US$2	25%	Investment holding
Olympic Wealth Limited	British Virgin Islands/ limited liability company	The PRC	Ordinary US$1	25%	Licensing of professional sports events and entertainment content in the PRC and other regions
Star Global Management Limited	Hong Kong/ limited liability company	Hong Kong	Ordinary HK$1	25%	Inactive
Goldline Enterprises Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$1	25%	Investment holding
Orient Ace Holdings Limited	Hong Kong/ limited liability company	Hong Kong	Ordinary HK$1	25%	Investment holding

18. INTEREST IN ASSOCIATES *(Continued)*

Name of associate	Place of incorporation/ kind of legal entity	Place of operation	Nominal value of issued ordinary share/ registered capital	Effective percentage of equity indirectly attributable to the Company	Principal activities
Shenzhen Chuangzhan Corporate Image Planning Limited	The PRC/ foreign wholly-owned enterprise	The PRC	Paid-up capital RMB500,000	25%	Investment holding
China Sports (Beijing) Media Limited	The PRC/ private enterprise	The PRC	Paid-up capital RMB1,000,000	25%	Licensing of professional sports events and entertainment content in the PRC
Shanghai YiTiDongLi Cultural and Sports Communications Limited	The PRC/ private enterprise	The PRC	Paid-up capital RMB2,000,000	25%	Licensing of professional sports events and entertainment content in the PRC

In January 2011, Marvel Cosmos Limited, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party to acquire 25% equity interest of Socle Limited, an unlisted private entity, at an aggregate consideration of HK$25,225,000, of which HK$15,568,000 to be settled by cash and HK$9,657,000 to be settled by the allotment of 26,100,503 shares of the Company at the market price upon completion. The acquisition was completed in June 2011.

18. INTEREST IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information of the associates as of and for the year ended 31 December 2011:

	HK$'000
Financial position at the end of the reporting period	
Total non-current assets	**54,123**
Total current assets	**54,702**
Total current liabilities	**(61,581)**
Total non-current liabilities	**(23,924)**
Net assets	**23,320**
Group's share of net assets of associates	**5,830**
Operating results for the year	
Total revenue	**62,833**
Total profit for the year	**21,848**
Group's share of post-acquisition results of associates	**2,123**

The above financial information is prepared using the same accounting policies as those adopted by the Group.

19. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	2011	2010
	HK$'000	HK$'000
Share of net liabilities	**–**	–

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

Particulars of the jointly controlled entities which are all held by a 51% owned subsidiary of the Group are as follows:

Name of jointly controlled entity	Place of incorporation/ kind of legal entity	Place of operation	Nominal value of issued ordinary share/ registered capital	Effective percentage of equity indirectly attributable to the Company	Principal activities
Shinning Day Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$4	25.5%	Investment holding
Golden Sino Limited	Hong Kong/ limited liability company	Hong Kong	Ordinary HK$1,000	25.5%	Investment holding
Beijing YiLaiShen Technology Company Limited	The PRC/ foreign wholly-owned enterprise	The PRC	Paid-up capital HK$12,000,000	25.5%	Provision of copyright management solution and the related consultancy services and the digital content licensing solution
e-License Shanghai Co. Limited	The PRC/ limited liability company	The PRC	Paid-up capital HK$400,000	25.5%	Provision of copyright management solution and the related consultancy services and the digital content licensing solution

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

The following table illustrates the summarised financial information of the jointly controlled entities as of and for the years ended 31 December 2011 and 2010:

	2011		2010	
	Summary financial information HK$'000	**Group's effective interest HK$'000**	Summary financial information HK$'000	Group's effective interest HK$'000
Financial position at end of reporting period				
Total non-current assets	**294**	**75**	356	91
Total current assets	**1,474**	**376**	2,399	612
Total current liabilities	**(22,500)**	**(5,738)**	(18,008)	(4,592)
Net liabilities	**(20,732)**	**(5,287)***	(15,253)	(3,889)*
Operating results for the year				
Revenue	**235**	**60**	159	40
Loss for the year	**(5,238)**	**(1,336)***	(7,793)	(1,987)*

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

The above financial information is prepared using the same accounting policies as those adopted by the Group.

The unrecognised share of losses of jointly controlled entities for the current year and cumulatively up to the end of the reporting period amounted to HK$1,336,000 (2010: HK$1,987,000) and HK$3,323,000 (2010: HK$1,987,000) respectively.

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	
	2011	2010
	HK$'000	HK$'000
Reconciliation of carrying amount		
At beginning of reporting period	**109,296**	109,296
Impairment losses	**(34,000)**	–
At end of reporting period	**75,296**	109,296
Cost	**109,296**	109,296
Accumulated impairment losses	**(34,000)**	–
	75,296	109,296

Goodwill arose in the acquisitions in prior years because the consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

The carrying amount of goodwill was allocated to the Group's cash generating units ("CGUs") identified according to the country of operations and business segments as follows for impairment test:

	Group	
	2011	2010
	HK$'000	HK$'000
e-Learning business	**7,751**	10,751
e-Licensing business	**67,545**	98,545
	75,296	109,296

The recoverable amounts of the e-Learning business and e-Licensing business were assessed by reference to the value-in-use of the relevant CGUs.

20. GOODWILL *(Continued)*

CGU of e-Learning business

Goodwill associated with e-Learning business arose when that business was acquired by the Group in 2008. The business has continued to operate on a satisfactory basis but without achieving the significant increase in market share as expected. In light of keen competition and the delay in the development of the PRC markets, the directors have decided to revise the key assumptions according to the recent development of the online learning market. 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. The directors determined to recognise an impairment loss on goodwill related to e-Learning business amounting to HK$3,000,000 (2010: Nil). The impairment loss recognised has been included in the "other operating expenses" line item in the consolidated statement of comprehensive income. No further write-down of other assets of the e-Learning business is considered necessary.

CGU of e-Licensing business

Because of the prolonged negotiation process between the Group and the telecommunication operators as well as the major record labels for the provision of licensed music contents on the mobile music platforms on an exclusive basis in the PRC, there has been unexpected delay in the development and commencement of the e-Licensing business. Although the formal agreement of obtaining licensed music contents from major record labels and the formal agreement for the provision of licensed music contents on the mobile music platform were executed in December 2010, the business on the mobile music platform was not formally launched until February 2011.

In light of substantial delay in the launch of the business into the market and the development of other mobile music platforms in the PRC markets, the Group appointed an independent professional valuer to perform an appraisal of the market value of the e-Licensing business as at 31 December 2011. Following the launch of the e-Licensing business in February 2011, the Group has devoted more resources in the business of music download in mobile music platforms than the provision of consultancy services business. Because of the change in the business focus, the directors have decided to revise the key assumptions according to the recent development of its business model. The recoverable amount of the CGU of the e-Licensing business has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by the board of directors covering a 5-year period. Cash flows beyond the 5-year period have been extrapolated using a 3% 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 carrying amount of the CGU exceeded its recoverable amount by HK$31,000,000 and therefore, the directors decided to recognise an impairment loss on goodwill related to e-Licensing business by the same amount (2010: Nil). The impairment loss recognised has been included in the "other operating expenses" line item in the consolidated statement of comprehensive income. No further write-down of other assets of the e-Licensing business is considered necessary.

20. GOODWILL *(Continued)*

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

	e-Learning		e-Licensing	
	2011	2010	**2011**	2010
Gross profit margin	**48%-58%**	50%-63%	**34%-36%**	89%-93%
Average growth rate	**4%-8%**	6%-10%	**4%-25%**	20%-23%
Long-term growth rate	**–**	–	**3%**	3%
Discount rate	**9%**	11%	**21%**	23%

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 impairment losses of HK$3,000,000 (2010: Nil) and HK$31,000,000 (2010: Nil) recognised during the year relate to the Group's e-Learning business and e-Licensing business respectively.

21. LOANS TO AND DUE FROM JOINTLY CONTROLLED ENTITIES

	Group	
	2011	2010
	HK$'000	HK$'000
Due from jointly controlled entities	**549**	15,706
Loans to a jointly controlled entity	**9,199**	–
	9,748	15,706

The amounts due from jointly controlled entities are unsecured, interest-free and have no fixed repayment term. The directors expected the amount will not be realised in the next twelve months of the end of the reporting period.

21. LOANS TO AND DUE FROM JOINTLY CONTROLLED ENTITIES *(Continued)*

On 1 January 2011, a 51%-owned subsidiary of the Company granted a revolving loan facility of HK$17,000,000 to a jointly controlled entity, which is unsecured, interest-bearing at prime rate plus 1.5% per annum and repayable within 36 months from the date of agreement. The jointly controlled entity had drawn down HK$9,199,000 as at 31 December 2011.

The carrying values of the amounts due approximate their fair value.

22. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Finished goods	**300**	246

23. ACCOUNTS AND OTHER RECEIVABLES

		Group		Company	
		2011	2010	**2011**	2010
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accounts receivable					
From third parties	*(i)*	**9,830**	2,709	**–**	–
Other receivables					
Deposits, prepayments and other receivables		**2,686**	2,133	**405**	211
Prepayments to licensors		**41,769**	24,080	**–**	–
Loan interest receivable from a subsidiary		**–**	–	**2,497**	228
Due from a director of a subsidiary	*(ii)*	**–**	1,585	**–**	–
		44,455	27,798	**2,902**	439
		54,285	30,507	**2,902**	439

23. ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

(i) Accounts receivable

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 accounts receivable balance are debtors with carrying amounts of HK$4,868,000 (2010: HK$1,237,000), 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 accounts receivable (net of allowance for bad and doubtful debts) by invoice date is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
0-30 days	**9,029**	1,956
31-60 days	**309**	171
61-90 days	**213**	509
Over 90 days	**279**	73
	9,830	2,709

23. ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

(i) Accounts receivable *(Continued)*

At the end of the reporting period, the ageing analysis of the accounts receivable by overdue date that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Current	**4,962**	1,472
Less than 1 month past due	**4,067**	483
1 month to 3 months past due	**522**	680
Over 3 months past due	**279**	74
	4,868	1,237
	9,830	2,709

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no history of default.

(ii) Due from a director of a subsidiary

The amount due from a director of a subsidiary, Mr. Hsu Tung Chi, was unsecured, interest-free and had no fixed repayment term. The amount was fully settled during the year.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**7,256**	44,645	**5,082**	40,035

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates.

25. OTHER PAYABLES

		Group		Company	
		2011	2010	**2011**	2010
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Deferred income		**2,090**	2,270	**–**	–
Accrued charges and other payables		**5,599**	1,871	**643**	447
Due to a related party	*(i)*	**5,122**	–	**–**	–
		12,811	4,141	**643**	447

(i) Due to a related party

The related party is the shareholder of a substantial shareholder of the Company (i.e. which is interested in 10% or more of the nominal value of share capital of the Company). The amount due is unsecured, interest-free and has no fixed repayment term.

26. CONVERTIBLE BONDS

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

		Group and Company	
		2011	2010
	Note	**HK$'000**	HK$'000
Liability component at 1 January		**26,102**	24,895
Extinguishment of convertible bonds	*(i)*	**(4,002)**	–
Reissuance of convertible bonds	*(i)*	**3,496**	–
Conversion of convertible bonds	*(ii)*	**(2,565)**	–
Interest expenses		**1,256**	1,247
Interest paid/payable		**(41)**	(40)
Liability component at 31 December		**24,246**	26,102
Portion classified as non-current		**(24,246)**	(22,174)
Current portion		**–**	3,928

		Group and Company	
		2011	2010
	Note	**HK$'000**	HK$'000
Equity component at 1 January		**6,260**	6,260
Extinguishment of convertible bonds	*(i)*	**(434)**	–
Reissuance of convertible bonds	*(i)*	**504**	–
Conversion of convertible bonds	*(ii)*	**(650)**	–
Equity component at 31 December		**5,680**	6,260

26. CONVERTIBLE BONDS *(Continued)*

(i) In June 2008, the Company issued 1% convertible bonds with nominal value of HK$4,000,000 (the "Convertible Bond") to acquire 12% equity interest in Far Glory Limited ("Far Glory") and its subsidiaries ("Far Glory Group"). The convertible bonds will mature 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 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 Group for the years ended 31 December 2009 and 2010 would 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 average actual profit ("the actual average of the audited consolidated net profit after tax and extraordinary or exceptional items of Far Glory Group for the years ended 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.

In April 2011, the Company signed a supplementary agreement with the vendor, Mr. Hsu Tung Chi (a director of the Company since 1 February 2011) and the guarantor, Mr. Hsu Tung Sheng (a director of the Company), to extend the time for the fulfillment of the agreed guaranteed profit and revise the guaranteed profit. Under the supplementary agreement, (1) the average of the audited consolidated net profit after tax of Far Glory Group for the years ending 31 December 2011 and 2012 ("Average Actual Profit") will not be less than HK$15,000,000 or (2) the audited consolidated net profit after tax of Far Glory Group for the financial year ending 31 December 2011 ("2011 Actual Profit") will not be less than HK$30,000,000.

Upon the extension of the time for the fulfillment of the agreed guaranteed profit, the term of the convertible bonds has been extended to 31 December 2014. The extension of the term of convertible bonds constitutes a substantial modification of the terms of the existing financial liabilities, which is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The gain arising from the extinguishment of the original financial liability of HK$436,000 has been recognised in profit or loss during the year.

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% per annum for instruments of comparable credit status. The residual amount, representing the value of the equity conversion component, has been included in the convertible bonds reserve.

26. CONVERTIBLE BONDS *(Continued)*

(ii) 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 mature 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.

During the year, convertible bonds with nominal amount of HK$3,000,000 were converted into shares of the Company.

27. EARN-OUT PAYABLE

Earn-out payable as of 31 December 2011 and 2010 represented the balance consideration for the acquisition of 12% equity interest in Far Glory Group payable to the vendor, Mr. Hsu Tung Chi (a director of the Company since 1 February 2011), being the extra convertible bonds 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 Group subsequent to the year ended 31 December 2011. A director of the Company, Mr. Hsu Tung Sheng has agreed to guarantee in favour of the Group the due and punctual performance of the obligations of the vendor under the agreement dated 5 May 2008. For details of such earn-out payable, please refer to the circular of the Company dated 30 May 2008.

Because of unexpected delay in the business development of the Far Glory Group, the average guaranteed profit could not be achieved. The directors, in accordance with the provisos stipulated in the Agreement, were negotiating with the counterparties about a proposal for the settlement of the shortfall of the average actual profit over the average guaranteed profit, which may include extension of the time for fulfillment of an agreed guaranteed profit. As no agreement had yet been reached as of the date of approval of the consolidated financial statements as of 31 December 2010, the earn-out payable and the Convertible Bond mentioned in note 26(i) were classified as current liabilities in accordance with the settlement terms agreed with the counterparties in 2008 as at 31 December 2010.

Under the supplementary agreement as mentioned in note 26(i) to the consolidated financial statements, the balance consideration will be payable to the vendor in the following manner:

(i) HK$5,400,000 by Cheer Plan procuring the Company to issue the extra convertible bonds with principal amount of provided that (1) the Average Actual Profit is equal to or greater than HK$18,000,000 but less than HK$25,000,000; or (2) the 2011 Actual Profit is equal to or greater than HK$36,000,000 but less than HK$50,000,000; or

27. EARN-OUT PAYABLE *(Continued)*

(ii) HK$18,000,000 by Cheer Plan procuring the Company to issue the extra convertible bonds with principal amount of provided that (1) the Average Actual Profit is equal to or greater than HK$25,000,000; or (2) the 2011 Actual Profit is equal to or greater than HK$50,000,000.

As the directors do not expect the earn-out payable will be paid before the end of 2012, it is classified as non-current liabilities in the consolidated financial statements as of 31 December 2011.

28. SHARE CAPITAL

	Note	**Number of shares**	**Amount HK$'000**
Authorised:			
At 31 December 2010 and 2011, ordinary shares of HK$0.05 each		4,000,000,000	200,000
Issued and fully paid:			
At 1 January 2010, ordinary shares of HK$0.05 each		1,940,585,643	97,029
Shares issued from placing		103,500,000	5,175
Shares issued upon exercise of unlisted warrants		20,000,000	1,000
Shares issued upon exercise of share options		131,000,000	6,550
At 31 December 2010, ordinary shares of HK$0.05 each		2,195,085,643	109,754
Shares issued for acquisition of 25% equity interest in associates	*(i)*	26,100,503	1,305
Shares issued upon conversion of convertible bonds	*(ii)*	31,914,893	1,596
At 31 December 2011, ordinary shares of HK$0.05 each		**2,253,101,039**	**112,655**

Note:

(i) In June 2011, 26,100,503 ordinary shares of the Company were issued at a price of HK$0.37 per share, totaling HK$9,657,000 to a third party as part of the consideration for the acquisition of 25% equity interest in associates.

(ii) During the year, the bondholders converted the convertible bonds with nominal value of HK$3,000,000 into 31,914,893 ordinary shares of the Company at the exercise price of HK$0.094 per share. Details of which are set out in note 26(ii) to the consolidated financial statements.

All shares issued in 2011 rank pari passu with the existing shares in all respects.

29. RESERVES

Company

	Share premium HK$'000	Contributed surplus HK$'000	Warrant reserve HK$'000	Share option reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	100,826	3,047	–	7,645	6,260	(112,676)	5,102
Loss for the year	–	–	–	–	–	(22,763)	(22,763)
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	(22,763)	(22,763)
Transactions with owners							
Placing new shares	23,081	–	–	–	–	–	23,081
Share placing expenses	(1,060)	–	–	–	–	–	(1,060)
Employee share-based payment	–	–	–	10,323	–	–	10,323
Exercise of share options	22,278	–	–	(5,717)	–	–	16,561
Issue of unlisted warrants	–	–	311	–	–	–	311
Issue of shares upon exercise of unlisted warrants	4,460	–	(20)	–	–	–	4,440
	48,759	–	291	4,606	–	–	53,656
At 31 December 2010	149,585	3,047	291	12,251#	6,260	(135,439)	35,995

29. RESERVES *(Continued)*

Company

	Share premium HK$'000	Contributed surplus HK$'000	Warrant reserve HK$'000	Share option reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	149,585	3,047	291	12,251	6,260	(135,439)	35,995
Loss for the year	–	–	–	–	–	(28,804)	(28,804)
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	(28,804)	(28,804)
Transactions with owners							
Extinguishment of convertible bonds	–	–	–	–	(434)	–	(434)
Reissuance of convertible bonds	–	–	–	–	504	–	504
Conversion of convertible bonds	1,619	–	–	–	(650)	–	969
Issue of consideration shares for acquisition of associates	8,352	–	–	–	–	–	8,352
	9,971	–	–	–	(580)	–	9,391
At 31 December 2011	159,556	3,047	291	12,251#	5,680	(164,243)	16,582

Included in share option reserve was an amount of HK$1,928,000 (2010: HK$1,928,000) relating to the share options lapsed in previous years 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.

29. RESERVES *(Continued)*

Note: (Continued)

(iii) The share option reserve represents the fair value of the actual or estimated number of unexercised or lapsed share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation as described in note 3 to these consolidated financial statements.

(iv) The Company did not have reserves available for distribution to the equity holders of the Company as at 31 December 2011 and 2010.

(v) The convertible bonds reserve represents the equity component (conversion right) of the convertible bonds issued (see note 26 to the consolidated financial statements).

(vi) The warrant reserve relates to the private placing of unlisted warrants. Further information about the unlisted warrants is set out in note 31 to the consolidated financial statements.

(vii) Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

30. 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.

30. SHARE OPTION SCHEME *(Continued)*

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.

Details of specific categories of share options are as follows:

Date of grant	Exercise period	Exercise price	Fair value at grant date
		HK$	HK$
13/12/2010	13/12/2010 to 13/12/2013	0.440	0.1037
16/12/2010	16/12/2010 to 16/12/2013	0.475	0.1122

In accordance with the terms of the Scheme, options granted during the financial year ended 31 December 2010 were vested at the date of grant.

The fair value of the share options is determined using a binomial pricing model. The variances and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Expectations of early exercise are incorporated into the model. The value of an option varies with different variables of certain subjective assumptions. Inputs to the model are as follows:

	Date of grant	
	13/12/2010	16/12/2010
Share price at grant date	0.44	0.475
Exercise price	0.44	0.475
Option life	3 years	3 years
Expected volatility	66.26%	66.39%
Expected dividends	Nil	Nil
Risk-free interest rate	0.381%	0.381%

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.

30. SHARE OPTION SCHEME *(Continued)*

The following table discloses movements of the Company's number of share options held by employees and directors during the years ended 31 December 2010 and 2011:

Year ended 31 December 2011

Grant date	Exercise period	Exercise price	Outstanding as 1/1/2011	Granted during the year	Exercise during the year	Outstanding as 31/12/2011
		HK$				
Directors						
13/12/2010	13/12/2010 to 13/12/2013	0.440	**31,000,000**	**–**	**–**	**31,000,000**
Employees						
13/12/2010	13/12/2010 to 13/12/2013	0.440	**48,000,000**	**–**	**–**	**48,000,000**
16/12/2010	16/12/2010 to 16/12/2013	0.475	**19,000,000**	**–**	**–**	**19,000,000**
			67,000,000	**–**	**–**	**67,000,000**
			98,000,000	**–**	**–**	**98,000,000**
Exercisable at end of reporting period						**98,000,000**
Weighted average exercise price			**HK$0.447**	**–**	**–**	**HK$0.447**

30. SHARE OPTION SCHEME *(Continued)*

Year ended 31 December 2010

Grant date	Exercise period	Exercise price	Outstanding as 1/1/2010	Granted during the year	Exercise during the year	Outstanding as 31/12/2010
		HK$				
Directors						
28/8/2008	16/9/2008 to 27/8/2018	0.101	1,000,000	–	(1,000,000)	–
16/12/2009	30/12/2009 to 15/12/2011	0.177	50,000,000	–	(50,000,000)	–
13/12/2010	13/12/2010 to 13/12/2013	0.440	–	31,000,000	–	31,000,000
			51,000,000	31,000,000	(51,000,000)	31,000,000
Employees						
16/12/2009	30/12/2009 to 15/12/2011	0.177	80,000,000	–	(80,000,000)	–
13/12/2010	13/12/2010 to 13/12/2013	0.440	–	48,000,000	–	48,000,000
16/12/2010	16/12/2010 to 16/12/2013	0.475	–	19,000,000	–	19,000,000
			80,000,000	67,000,000	(80,000,000)	67,000,000
			131,000,000	98,000,000	(131,000,000)	98,000,000
Exercisable at end of reporting period						98,000,000
Weighted average exercise price			HK$0.176	HK$0.447	HK$0.176	HK$0.447

No share options were exercised during the year. The weighted average share price at the date of exercise for share options exercised during the years ended 31 December 2010 was HK$0.330.

The share options outstanding at 31 December 2011 have an exercise price of HK$0.440 or HK$0.475 (2010: HK$0.440 or HK$0.475) and a weighted average remaining contractual life of 1.95 years (2010: 2.95 years).

31. WARRANTS

In September 2010, the Company completed a private placing of 310,500,000 unlisted warrants at an issue price of HK$0.001 per warrant. Each warrant entitles to the warrant holder to subscribe for one new ordinary share at the subscription price of HK$0.272 within a period of three years commencing from the date of issue of the unlisted warrants.

No unlisted warrants were exercised during the year. In 2010, 20,000,000 unlisted warrants were exercised for a total cash consideration, before expenses, of HK$5,440,000.

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 subsidiary in the PRC also participates 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 subsidiary.

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK$931,000 (2010: HK$129,000).

33. DEFERRED TAXATION

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

	Accelerated tax depreciation	
	2011	2010
	HK$'000	HK$'000
At 1 January	**4**	16
Deferred tax credited to profit or loss	**–**	(12)
At 31 December	**4**	4

33. DEFERRED TAXATION *(Continued)*

(b) Unrecognised deferred tax assets

As at 31 December 2010, tax losses of HK$1,331,000 arising from the Group's PRC operations could be used to offset against future taxable profits of the respective PRC subsidiary for a maximum of 5 years. The Group has not recognised deferred tax asset in respect of tax losses because it is uncertain that future taxable profit will be available against which the Group can utilise the benefits therefrom. The tax loss has been fully utilised to offset the taxable profit during the year ended 31 December 2011.

The unrecognised tax losses arising from the Group's PRC operation at the end of the reporting period will expire as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Year of expiry		
2012	–	28
2013	–	310
2014	–	363
2015	–	630
At end of reporting period	–	1,331

The retained earnings of certain foreign subsidiaries and associates would be subject to additional taxation if they are distributed. The estimated withholding tax effects on the distribution of retained earnings of these foreign entities were approximately HK$199,000 (2010: Nil). In the opinion of the directors, these retained earnings, at the present time, are required for financing the continuing operations of the entities and no distribution would be made in the foreseeable future. Accordingly, no provisions for additional deferred taxation have been made.

34. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

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

Connected transactions

On 10 February 2010, the Company granted to Far Glory, a 51%-owned subsidiary, a revolving loan facility up to a maximum amount of HK$9,500,000 at any time during the period commencing from 10 February 2010 to 10 February 2013 for financing the business development and working capital requirements of Far Glory and its subsidiaries (the "Original Facility"). The Original Facility is interest-bearing at the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited.

On 23 July 2010, the Company and Far Glory entered into a supplemental agreement, pursuant to which both parties have agreed to revise the Original Facility such that the maximum amount and the interest rate have been revised as HK$40,000,000 at any time during the period commencing from 23 July 2010 to 23 July 2013 and one per cent above the prime rate for Hong Kong dollar loan per annum as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited respectively. Details of the transaction have been set out in the circular of the Company dated 13 August 2010.

As at 31 December 2011, HK$40,000,000 (2010: HK$31,000,000) was drawn down and the related interest income of HK$2,269,000 (2010: HK$228,000) was accrued in respect of the facility utilised.

The loan facility granted to Far Glory constitutes a continuing connected transaction under the GEM Listing Rules and the relevant disclosures are made in the Directors' Report of this annual report.

34. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS *(Continued)*

Other related party transactions

		Group	
Related party relationship	**Nature of transaction**	**2011 HK$'000**	2010 HK$'000
Key management personnel (excluding directors)	Salaries and allowances	**800**	535
	Employee share-based payment	**–**	6,175
		800	6,710
Jointly controlled entity	Purchase of intangible assets	**3,659**	–
	Loan interest income	**1,389**	–
Associate	Consultancy services income	**2,400**	–
Director of the Company, Mr. Hsu Tung Chi	Interest on convertible bonds	**92**	–

35. OPERATING LEASE COMMITMENTS

The Group leases equipment and premises under operating leases. The leases are negotiated for a term ranging from 1 year to 5 years.

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

	The Group	
	2011 HK$'000	2010 HK$'000
Within one year	**937**	54
In the second to fifth years inclusive	**132**	186
	1,069	240

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise convertible bonds, share options, warrants 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 accounts and other receivables and other payables, which arise directly from its business activities.

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

	Loans and receivables			
	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets as per consolidated statement of financial position				
Loans to and due from jointly controlled entities	**9,748**	15,706	**–**	–
Due from subsidiaries	**–**	–	**99,841**	100,823
Loans to a subsidiary	**–**	–	**40,000**	31,000
Accounts and other receivables	**11,382**	6,427	**2,902**	439
Bank balances and cash	**7,256**	44,645	**5,082**	40,035
Total	**28,386**	66,778	**147,825**	172,297

	Other financial liabilities			
	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities as per consolidated statement of financial position				
Other payables	**10,721**	1,871	**643**	447
Convertible bonds	**24,246**	26,102	**24,246**	26,102
Earn-out payable	**18,000**	18,000	**–**	–
Total	**52,967**	45,973	**24,889**	26,549

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

The main risks arising from the Group's financial instruments are credit risk, interest rate 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.

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 accounts receivable and bank balances.

A detailed discussion of the Group's credit risk in respect of accounts receivable is set out in note 23 to the consolidated 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 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, the Group had a concentration of credit risk as 36% (2010: 4%) and 77% (2010: 16%) of the total accounts receivable were made up by the Group's largest customer's and the five largest customers' outstanding balances respectively.

At the end of the reporting period, the Company had a concentration risk of the amount due from subsidiaries of which 54% (2010: 62%) was due from a subsidiary.

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

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 are considered immaterial.

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility.

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

	2011					2010				
	Total carrying value HK$'000	Total contractual undiscounted cash flows HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total carrying value HK$'000	Total contractual undiscounted cash flows HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000
Other payables	10,721	10,721	10,721	–	–	1,871	1,871	1,871	–	–
Convertible bonds	24,246	30,903	–	–	30,903	26,102	30,903	–	4,000	26,903
Earn-out payable	18,000	18,000	–	–	18,000	18,000	18,000	–	18,000	–
	52,967	59,624	10,721	–	48,903	45,973	50,774	1,871	22,000	26,903
Undrawn loan commitment	7,801	7,801	7,801	–	–	–	–	–	–	–
	60,768	67,425	18,522	–	48,903	45,973	50,774	1,871	22,000	26,903

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

Liquidity risk *(Continued)*

Company

	2011					2010				
	Total carrying value HK$'000	Total contractual undiscounted cash flows HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total carrying value HK$'000	Total contractual undiscounted cash flows HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000
Other payables	643	643	643	–	–	447	447	447	–	–
Convertible bonds	24,246	30,903	–	–	30,903	26,102	30,903	–	4,000	26,903
	24,889	31,546	643	–	30,903	26,549	31,350	447	4,000	26,903
Unrecognised loan facility to a subsidiary	–	–	–	–	–	–	9,000	9,000	–	–
	24,889	31,546	643	–	30,903	26,549	40,350	9,447	4,000	26,903

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 2011.

37. 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. The capital structure of the Group consists of bank balances, net debts, and equity attributable to shareholders (comprising issued capital and reserves). No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 2010.

38. EVENTS AFTER THE REPORTING PERIOD

In January 2012, the Group entered into an agreement with third parties to acquire 20% equity interest in a company incorporated in the British Virgin Islands at an aggregate consideration of HK$400,000. The target company will be principally engaged in the promotion, sales and distribution of licensed digital music contents in the PRC.

In January 2012, a warrant holder subscribed 15,000,000 ordinary shares of the Company at the subscription price of HK$0.272 for a total cash consideration, before expenses, of HK$4,080,000.