



China Digital Licensing (Group) Limited

中國數碼版權(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)



Interim Report 2012

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

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

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

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



## INTERIM RESULTS (UNAUDITED)

The board (the "Board") of directors (the "Directors") is pleased to present an unaudited consolidated financial statements of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 30 June 2012 together with the comparative figures for the corresponding period in 2011, as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Turnover	3	12,782	8,795	27,598	11,339
Cost of services rendered and cost of good sold		(5,113)	(3,094)	(11,214)	(4,203)
Gross profit		7,669	5,701	16,384	7,136
Other income		127	131	254	204
Administrative and other expenses		(6,880)	(5,289)	(12,915)	(8,583)
Finance costs		(286)	(342)	(578)	(640)
Share of results of associates		1,069	350	2,048	350
<b>Profit (loss) before taxation</b>	5	<b>1,699</b>	551	<b>5,193</b>	(1,533)
Income tax expense	6	(471)	(22)	(1,175)	(47)
<b>Profit (loss) for the period</b>		<b>1,228</b>	529	<b>4,018</b>	(1,580)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
<b>Other comprehensive income for the period</b>					
Currency translation differences		-	-	-	-
<b>Total comprehensive profit (loss) for the period</b>		<b>1,228</b>	529	<b>4,018</b>	(1,580)
<b>Profit (loss) attributable to:</b>					
Equity holders of the Company		237	(1,251)	1,039	(3,188)
Non-controlling interests		991	1,780	2,979	1,608
		<b>1,228</b>	529	<b>4,018</b>	(1,580)
<b>Total comprehensive profit (loss) attributable to:</b>					
Equity holders of the Company		237	(1,251)	1,039	(3,188)
Non-controlling interests		991	1,780	2,979	1,608
		<b>1,228</b>	529	<b>4,018</b>	(1,580)
<b>Dividends</b>	7	-	-	-	-
<b>Profit (loss) per share</b>	8				
Basic		HK0.01 cents	HK(0.06) cents	HK0.05 cents	HK(0.14) cents
Diluted		HK0.01 cents	HK(0.06) cents	HK0.04 cents	HK(0.14) cents

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		6,626	6,607
Intangible assets		3,232	3,598
Interests in associates		29,796	27,348
Loans to and due from jointly controlled entities		11,773	9,748
Goodwill		75,296	75,296
		<b>126,723</b>	122,597
<b>CURRENT ASSETS</b>			
Inventories		336	300
Accounts and other receivables	9	53,422	54,285
Tax recoverable		–	114
Bank balances and cash		10,552	7,256
		<b>64,310</b>	61,955
<b>CURRENT LIABILITIES</b>			
Other payables	10	10,356	12,811
Tax payable		284	–
		<b>10,640</b>	12,811
<b>NET CURRENT ASSETS</b>		<b>53,670</b>	49,144
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>180,393</b>	171,741
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds		24,804	24,246
Earn-out payable		18,000	18,000
Deferred tax liabilities		–	4
		<b>42,804</b>	42,250
<b>NET ASSETS</b>		<b>137,589</b>	129,491
<b>CAPITAL AND RESERVES</b>			
Share capital		113,405	112,655
Reserves		12,699	8,330
Equity attributable to equity holders of the Company		126,104	120,985
Non-controlling interests		11,485	8,506
<b>TOTAL EQUITY</b>		<b>137,589</b>	129,491

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2012

	Share capital	Share premium	Special reserve	Warrant reserve	Convertible bonds reserve	Foreign currency translation reserve	Share option reserve	Accumulated (losses) profits	Subtotal	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)								
<b>2011</b>											
At 1 January 2011	109,754	149,585	10,084	291	6,260	86	12,251	(141,853)	146,458	5,912	152,370
Issue of consideration shares	1,305	12,790	-	-	-	-	-	-	14,095	-	14,095
Profit (loss) for the period	-	-	-	-	-	-	-	(3,188)	(3,188)	1,608	(1,580)
At 30 June 2011	111,059	162,375	10,084	291	6,260	86	12,251	(145,041)	157,365	7,520	164,885
<b>2012</b>											
At 1 January 2012	112,655	159,556	10,084	291	5,680	178	12,251	(179,710)	120,985	8,506	129,491
Issue of shares upon exercise of unlisted warrants	750	3,330	-	-	-	-	-	-	4,080	-	4,080
Profit for the period	-	-	-	-	-	-	-	1,039	1,039	2,979	4,018
At 30 June 2012	113,405	162,886	10,084	291	5,680	178	12,251	(178,671)	126,104	11,485	137,589

Note:

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

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2012

	<b>Six months ended 30 June 2012 (Unaudited) HK\$'000</b>	Six months ended 30 June 2011 (Unaudited) HK\$'000
Net cash from operating activities	<b>1,568</b>	4,556
Net cash used in investing activities	<b>(2,352)</b>	(18,366)
Net cash outflow before financing activities	<b>(784)</b>	(13,810)
Net cash from financing activities	<b>4,080</b>	–
Net increase (decrease) in cash and cash equivalents	<b>3,296</b>	(13,810)
Cash and cash equivalents at beginning of the period	<b>7,256</b>	44,645
Effect of exchange rate fluctuations, net	–	–
Cash and cash equivalents at end of the period	<b>10,552</b>	30,835

## NOTES

### 1. CORPORATE INFORMATION

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

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

### 2. STATEMENT OF COMPLIANCE

These 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 financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2011 financial statements.



### 3. TURNOVER

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

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
e-Licensing business	9,050	6,290	20,434	6,290
e-Learning business	3,732	2,505	7,164	5,049
	<b>12,782</b>	8,795	<b>27,598</b>	11,339

### 4. SEGMENT INFORMATION

#### (a) Segment revenue and results

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

#### Six months ended 30 June

	2012 (Unaudited)			2011 (Unaudited)		
	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
<b>Segment revenue</b>						
Sale to external customers	7,164	20,434	27,598	5,049	6,290	11,339
Loan interest income from a jointly controlled entity	-	254	254	-	-	-
	<b>7,164</b>	<b>20,688</b>	<b>27,852</b>	5,049	6,290	11,339
<b>Segment results</b>	<b>1,110</b>	<b>5,925</b>	<b>7,035</b>	287	3,043	3,330
Unallocated income			-			204
Unallocated expenses			(3,312)			(4,777)
Unallocated finance costs			(578)			(640)
Share of results of associates			2,048			350
Profit (loss) before taxation			5,193			(1,533)
Taxation			(1,175)			(47)
Profit (loss) for the year			<b>4,018</b>			(1,580)

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

The accounting policies of the reporting segments are the same as the Group's accounting policies. 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

As at 30 June

	2012 (Unaudited)			2011 (Unaudited)		
	e-Learning business	e-Licensing business	Consolidated	e-Learning business	e-Licensing business	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment assets</b>	<b>6,206</b>	<b>63,032</b>	<b>69,238</b>	9,405	47,164	56,569
Goodwill	7,751	67,545	75,296	10,751	98,545	109,296
Due from jointly controlled entities	-	11,773	11,773	-	18,375	18,375
Unallocated assets			<u>34,726</u>			<u>40,674</u>
Consolidated total assets			<u>191,033</u>			<u>224,914</u>
<b>Segment liabilities</b>	<b>2,227</b>	<b>7,043</b>	<b>9,270</b>	6,303	8,879	15,182
Unallocated liabilities			<u>44,174</u>			<u>44,847</u>
Consolidated total liabilities			<u>53,444</u>			<u>60,029</u>

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.

(c) Other segment information

	2012 (Unaudited)			2011 (Unaudited)		
	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
<b>Other segment information</b>						
Amortisation of intangible assets	-	366	366	-	-	-
Depreciation of property, plant and equipment	12	437	449	11	12	23
Capital expenditure	-	468	468	21	61	82

(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:

Six months ended 30 June

	Revenue from external customers		Non-current assets	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Hong Kong	7,164	7,473	8,188	12,752
PRC	20,434	3,866	118,535	145,092
	27,598	11,339	126,723	157,844

5. PROFIT (LOSS) BEFORE TAXATION

Profit (Loss) before taxation is stated after charging:

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Amortisation	183	-	366	-
Depreciation	217	12	449	23
	400	12	815	23

## 6. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. The income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current				
- Hong Kong	73	22	184	47
- PRC	398	-	991	-
	471	22	1,175	47

## 7. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the six months ended 30 June 2012 (2011: Nil).

## 8. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share attributable to equity holders of the Company is based on the following data:

### (a) Basic earnings (loss) per share

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Profit (loss) attributable to equity holders of the Company	237	(1,251)	1,039	(3,188)

  

	Number of shares		Number of shares	
	2012	2011	2012	2011
Shares				
Weighted average number of ordinary shares in issue during the period	2,268,101,039	2,201,969,292	2,266,617,523	2,198,546,483

  

Basic earnings (loss) per share	HK0.01 cents	HK(0.06) cents	HK0.05 cents	HK(0.14) cents
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**(b) Diluted earnings (loss) per share**

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Profit (loss) attributable to equity holders of the Company	237	(1,251)	1,039	(3,188)

	Number of shares		Number of shares	
	2012	2011	2012	2011
Shares				
Weighted average number of ordinary shares in issue during the period	2,268,101,039	2,201,969,292	2,266,617,523	2,198,546,483
Effect of dilutive potential ordinary shares:				
Convertible bonds	151,942,492	–	162,619,660	–
Weighted average number of shares for the purpose of calculating diluted earnings (loss) per share	2,420,043,531	2,201,969,292	2,429,237,183	2,198,546,483
Diluted earnings (loss) per share	HK0.01 cents	HK(0.06) cents	HK0.04 cents	HK(0.14) cents

Diluted loss per share for 2011 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.

## 9. ACCOUNTS AND OTHER RECEIVABLES

	<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
Accounts receivables	<b>12,935</b>	9,830
Deposits, prepayments and other receivables	<b>40,487</b>	44,455
	<b>53,422</b>	54,285

An ageing analysis of the trade receivables is as follows:

	<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
Current	<b>8,540</b>	4,962
Less than 1 month past due	<b>1,695</b>	4,067
1 month to 3 months past due	<b>1,744</b>	522
Over 3 months past due	<b>956</b>	279
	<b>12,935</b>	9,830

## 10. OTHER PAYABLES

	<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
Note		
Deferred income and other payables	<b>3,405</b>	7,689
Due to a related party (i)	<b>6,951</b>	5,122
	<b>10,356</b>	12,811

### (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.

## 11. 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:

	<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
Within one year	<b>937</b>	937
In the second to fifth years inclusive	<b>101</b>	132
	<b>1,038</b>	1,069

## 12. COMPARATIVE FIGURES

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

For the six months ended 30 June 2012, the Group recorded a turnover of approximately HK\$27,598,000 (30 June 2011: HK\$11,339,000) and a profit attributable to equity holders of the Company of approximately HK\$1,039,000 (30 June 2011: loss of HK\$3,188,000).

### I. e-Licensing Business

For the six months ended 30 June 2012, the e-Licensing business recorded a turnover of approximately HK\$20,434,000 (30 June 2011: HK\$6,290,000) which has made significant contribution to the Group's result.

As for the provision of music contents licensed by OneStop China Limited, the Group provides several network-wide ringtone products on the music platform of China Unicom, covering 32 provinces and cities nationwide in the PRC. At the same time, over 70 local ringtone products have been successfully rolled out through the music platform of China Unicom in 12 provinces. In addition, the Group cooperated with over two-thirds of the provinces in the PRC to conduct marketing activities relating to Olympic theme song.

During the period, the Group carried out extensive marketing campaigns in co-operation with the telecommunication operators in the PRC for special events and festivals, such as Lunar New Year, Valentine's Day, Dragon Boat Festival, Golden Melody Awards and Centennial Anniversary of Titanic, and these campaigns achieved good results. The Group will continue to launch similar marketing theme activities such as Chinese Valentine's Day in the PRC.

In the second quarter of 2012, the Group entered into a co-operation agreement with Strait Global (Beijing) Technology Limited (海峡全球(北京)科技有限公司) for the provision of licensed music albums and songs sung by Hasune Miku (初音未來) ("Miku") on the music platform of China Mobile in the PRC. Being the only virtual reality singer on the telecommunication networks, Miku's music is well-received since its launch.

Meanwhile, the Group is negotiating with top-tier talent agencies in Europe, the United States, Japan and Korea to obtain authorization for organizing concerts in Asia. In light of the tremendous growth in entertainment industry in the PRC in recent years, the Group has been exploring other business opportunities that would help the Group to secure its position in such industry.



## II. e-Learning Business

For the six months ended 30 June 2012, the e-Learning business recorded an increase in turnover of approximately 42% to approximately HK\$7,164,000 as compared to approximately HK\$5,049,000 in the same period last year.

With the successful launch of TOEIC Tests to educational institutions in Macao and the appointment of the Hong Kong Examinations and Assessment Authority as the official TOEIC Speaking & Writing Test Center in Hong Kong, the Group has achieved remarkable performance by delivering over thousands of TOEIC Tests to schools during the period.

During the second quarter of 2012, the Group clinched a significant deal with its mimio interactive whiteboard technologies for a major university in Hong Kong. In addition, the Group is negotiating a collaborative agreement for the provision of National Geographic Learning materials via the e-Learning platform in Hong Kong and Macao. Such product is expected to be rolled out in the coming quarters.

## FINANCIAL REVIEW

For the six months ended 30 June 2012, the Group recorded a 2.4-fold increase in its turnover to approximately HK\$27,598,000 as compared to approximately HK\$11,339,000 of previous corresponding period.

The Group reported a net profit attributable to equity holders of approximately HK\$1,039,000 for the six months ended 30 June 2012, compared to a net loss of approximately HK\$3,188,000 in the corresponding period of last year.

Administrative expenses for the six months ended 30 June 2012 amounted to approximately HK\$12,915,000 (30 June 2011: approximately HK\$8,583,000), representing an increase of approximately 50% compared with the same period last year. Such increase was in-line with the increase in turnover.

## Liquidity and financial resources

As at 30 June 2012, the Group had current assets of approximately HK\$64,310,000 (31 December 2011: HK\$61,955,000) and current liabilities of approximately HK\$10,640,000 (31 December 2011: HK\$12,811,000). The current assets were comprised mainly of cash and bank balances of HK\$10,552,000 (31 December 2011: HK\$7,256,000) together with accounts and other receivables

of HK\$53,422,000 (31 December 2011: HK\$54,285,000). The Group's current liabilities were comprised mainly of other payables of approximately HK\$10,356,000 (31 December 2011: HK\$12,811,000). The Group had no bank borrowings at 30 June 2012 (31 December 2011: Nil).

Most of the trading transactions, assets and liabilities of the Group are denominated in Hong Kong dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 30 June 2012, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

### **Foreign exchange risk**

Since almost all transactions of the Group are denominated either in Renminbi and Hong Kong dollars and most of the bank deposits are being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risk, the directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

### **Contingent liabilities**

As at 30 June 2012, the group had no material contingent liabilities.

### **Employee information**

As at 30 June 2012, the Group had 53 (31 December 2011: 42) full-time employees. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided.

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



## MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

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.

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

As at 30 June 2012, 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 (Note 1)	Beneficial Interest of controlled corporation	19,000,000 (L) 72,984,893 (L)	0.84% 3.22%
Daily Technology Company Limited (Note 1)	Beneficial	72,984,893 (L)	3.22%
Mr. Pang Hong Tao	Beneficial	42,800,000 (L)	1.89%
Ms. Au Shui Ming, Anna	Beneficial	54,500,000 (L)	2.40%

(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)	0.66%
Mr. Hsu Tung Chi	Beneficial	15,000,000 (L)	0.66%
Mr. Pang Hong Tao	Beneficial	8,000,000 (L)	0.35%
Ms. Au Shui Ming, Anna	Beneficial	8,000,000 (L)	0.35%

(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)	5.39%
	Interest of controlled corporation	Convertible bonds (Note 1)	254,287,234 (L)	11.21%
Daily Technology Company Limited	Beneficial	Convertible bonds (Note 1)	254,287,234 (L)	11.21%

(L) denotes long position

Note:

1. According to the sale and purchase agreement entered into among Cheer Plan Limited ("Cheer Plan"), a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi ("Mr. Hsu") and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will allot a maximum of 222,222,222 convertible bonds to Mr. Hsu. 100,000,000 convertible bonds were redeemed by the Company. As at 30 June 2012, 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 30 June 2012, 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 2012	Exercised during the period	Outstanding at 30 June 2012	Exercise price HK\$	Grant date	Exercisable period
<b>Directors</b>						
Mr. Hsu Tung Sheng	15,000,000	–	15,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Mr. Hsu Tung Chi	15,000,000	–	15,000,000	0.475	16/12/2010	16/12/2010- 15/12/2013
Mr. Pang Hong Tao	8,000,000	–	8,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
Ms. Au Shui Ming, Anna	8,000,000	–	8,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
<b>Employees</b>						
	48,000,000	–	48,000,000	0.44	13/12/2010	13/12/2010- 12/12/2013
	4,000,000	–	4,000,000	0.475	16/12/2010	16/12/2010- 15/12/2013
	98,000,000	–	98,000,000			



## SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 30 June 2012, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

### (i) Interest in Shares

<b>Name of Substantial Shareholder</b>	<b>Nature of interests</b>	<b>Number or attributable number of Shares held or short positions</b>	<b>Approximate percentage or attributable percentage of shareholding</b>
Mr. Lau Kim Hung, Jack (Note 1)	Interest of controlled corporations	497,698,238 (L)	21.94%
	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)	21.94%
Manciple Enterprises Limited (Note 1)	Beneficial	482,698,238 (L)	21.28%
Eagle Strategy Limited (Note 1)	Beneficial	15,000,000 (L)	0.66%
Ms. Chuang Meng Hua (Note 2)	Deemed	91,984,893 (L)	4.06%
Decade Talent Limited (Note 3)	Beneficial	90,000,000 (L)	3.97%

<b>Name of Substantial Shareholder</b>	<b>Nature of interests</b>	<b>Number or attributable number of Shares held or short positions</b>	<b>Approximate percentage or attributable percentage of shareholding</b>
Mr. Wan Wah Chung (Note 3)	Beneficial	6,520,000 (L)	0.29%
	Interest of controlled corporation	90,000,000 (L)	3.97%
	Deemed	700,000 (L)	0.03%
Ms. Yeung Wing Suen (Note 3)	Beneficial	700,000 (L)	0.03%
	Deemed	96,520,000 (L)	4.26%

(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 6,520,000 shares. Decade Talent Limited ("Decade Talent") is wholly and beneficially owned by Mr. Wan. Decade Talent beneficially owns 90,000,000 shares. Under the SFO, Mr. Wan is deemed to be interested in 90,000,000 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)	0.66%
	Deemed	Convertible bonds (Note 1)	376,509,456 (L)	16.60%
Decade Talent Limited	Beneficial	Warrants (Note 2)	130,000,000 (L)	5.73%
Mr. Wan Wah Chung	Interest of controlled corporation	Warrants (Note 2)	130,000,000 (L)	5.73%
Ms. Yeung Wing Suen	Deemed	Warrants (Note 2)	130,000,000 (L)	5.73%

(L) denotes long position

Notes:

- 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.
- 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 and 15,000,000 warrants on 26 November 2010 and 19 January 2012 respectively. Under the SFO, Mr. Wan is deemed to be interested in the outstanding 130,000,000 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 30 June 2012, the directors were not aware of any other person (other than the directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## **COMPETING INTERESTS**

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

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

During the period ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the period ended 30 June 2012.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 30 June 2012.



## PRE-EMPTIVE RIGHTS

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

## AUDIT COMMITTEE

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

The Group's unaudited interim results for the six months ended 30 June 2012 has been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosure has been made.

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

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

Hong Kong, 13 August 2012