China Digital Licensing (Group) Limited
中國數碼版權(集團)有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8175)

Annual 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.

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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Hsu Tung Sheng *(Chairman)*
Hsu Tung Chi *(Chief Executive Officer)*
Pang Hong Tao
Au Shui Ming, Anna

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

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2801A, Tower 1
Lippo Centre
89 Queensway
Hong Kong

SHARE REGISTRAR

Tricor Standard 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				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	10,044	4,150	6,973	29,315	**28,691**
(Loss) Profit for the year attributable to:					
Equity holders of the Company	(66,159)	(8,767)	(21,452)	(37,857)	**(68,928)**
Non-controlling interests	(4,246)	308	(7,640)	2,506	**(29,326)**
(Loss) Profit for the year	(70,405)	(8,459)	(29,092)	(35,351)	**(98,254)**

ASSETS AND LIABILITIES

	As at 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	101,184	161,305	200,617	184,552	**93,053**
Total liabilities	(61,195)	(46,657)	(48,247)	(55,061)	**(41,949)**
Non-controlling interests	(672)	(13,205)	(5,912)	(8,506)	**20,820**
Net assets attributable to equity holders of the Company	39,317	101,443	146,458	120,985	**71,924**

Note:

The Company was incorporated in the Cayman Islands on 10 October 2002 and continued in Bermuda on 19 December 2012, the Company 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 2012.

During the year, the Group recorded a turnover of approximately HK$28,691,000 (2011: HK$29,315,000) and a net loss attributable to equity holders of the Company of approximately HK$68,928,000 (2011: net loss of approximately HK$37,857,000).

I. Licensed Content Business

e-Licensing Business

During the year, the e-Licensing business recorded a turnover of approximately HK$15,285,000 (2011: HK$18,781,000) and a loss before taxation of approximately HK$63,110,000 (2011: a loss of HK$26,050,000). The loss was mainly due to (i) written off of prepayment to licensors of approximately HK$39,380,000, of which approximately HK$34,180,000 was confirmed to be expired in May 2012 by entering into a supplemental agreement with the licensor in December 2012; and (ii) allowance for doubtful debts on loans to and due from jointly controlled entities of approximately HK$20,225,000.

The Group has cooperated closely with the operating units of China Unicom in various provinces for the provision of licensed music contents on the music platform of China Unicom, with a view to cementing a solid foundation for the business development in the coming year.

The Group is one of the largest music content provider of China Unicom offering almost 50,000 pieces of licensed music of Chinese and Western styles, representing over 50% of music stored in the music library of China Unicom. The Group is one of the content providers of China Unicom who possesses two network-wide ringtone products. At the same time, the number of local ringtone products has reached an aggregate of 65 in various provinces. Leveraging on the established marketing and promotion resources in various provinces as well as promotion campaigns carried out in local outlets, the Group has accumulated a substantial customer base among the subscribers of China Unicom, enabling us to generate a stable stream of income.

Meanwhile, the Group cooperated closely with top-tier provinces to actively participate in the concerts organized by China Unicom in 2012. The Group also displayed its two network-wide ringtone products on stage background screen before the start of the concert, which was well-received and was helpful for establishing our brand's image while laying foundation for marketing of related products in the future.

During the year, national hit singles included"Gangnam Style" (江南style) by PSY, "You Exist in My Song" (我的歌聲裡) by Qu Wanting (曲婉婷), "You Are the Apple of My Eye" (那些年) by Xia Hu (胡夏), "High Song" (High歌) by Huang Ling (黃齡), "Still Love You" (依然愛你) by Leehom Wang (王力宏) and "Because Loving You" (因為愛你) by Faye Wong (王菲) and Eason Chan (陳奕迅), all of which were exclusively presented by the Group and yielded remarkable results on the music platform of China Unicom in various provinces.

In addition, the Group also cooperated with China Mobile and China Telecom in providing the licensed music contents on the music platform of both telecommunication operators in the PRC.

Interest in Associates

As for the licensed sports contents, certain licences of professional sports events cannot be renewed upon the expiry of the respective license periods in late 2012. As a result, the Group recognised an impairment loss on interest in associates of approximately HK$21,518,000, Nevertheless, a 4-year license agreement was entered in 2012 to obtain an exclusive authorisation to distribute the Chinese Football Association Super League (中國足球協會超級足球聯賽) on the television stations. The Group is confident that the associates will continue to obtain new contents from new sports events organizers or content licensors (whether locally or overseas) for further business growth.

Latest Development

In addition to the cooperation with three major telecommunication operators in the PRC, the Group will explore in-depth cooperation with Internet service providers and video content providers. It is expected that the Group will be able to secure more opportunities of cooperation with various large-scale corporations in the distribution of licensed contents. Leveraging on the existing platform and massive licensed contents, the Group aims to create a resourceful music platform by developing official websites and entertainment applications for top-tier artistes.

In January 2013, the Group proposed to acquire 80% equity interest in China Digital Entertainment Company Limited ("CDE"). CDE will commence its principal business in the promotion, sales and distribution of movie and music licensed content worldwide and the organization of music concerts, programs and related services.

Furthermore, the Group proposed to acquire 100% equity interest in Nova Dragon International Limited ("Nova") in January 2013, which is principally engaged in assisting professional athletes with marketing and promotional activities in the RPC. Nova has successfully provided services to several well renowned basketball players such as Jeremy Lin (林書豪). Nova also assists the athletes to source and negotiate with potential customers for athletes' participation in different marketing campaign and events, assessing suitable proposals and assisting in events arrangement and public relation on the part of the athletes.

On 27 March 2013, the Group has entered into a strategic cooperation framework agreement with one of the prominent film distribution company in the PRC, HuaXia Film Distribution Company (華夏電影發行有限責任公司), in relation to the overseas distribution of various films and programs produced in the PRC.

With the above-mentioned progress, the Group has striven to strength and broaden its business scope to cover the areas of culture, entertainment and sports. In line with the Group's strategic direction of e-Licensing business, the Group will continue to explore markets in the areas of music, sports and media.

II. e-Learning Business

During the year, the e-Learning business recorded an increase in turnover of approximately 27.3% to approximately HK$13,406,000 as compared to approximately HK$10,534,000 in the previous year. Despite an increase in turnover, the e-Learning business recorded a loss before taxation of approximately HK$1,057,000 (2011: a loss of HK$2,786,000), which was mainly due to impairment loss of goodwill of approximately HK$5,000,000 triggered by keen competition in the provision of language enhancement programs.

The Group has continued the government-funded projects with school-based e-learning implementations. Being the official TOEIC Tests (Test of English for International Communication) representative in Hong Kong and Macao appointed by Educational Testing Service ("ETS"), the Group was approved to provide TOEIC Tests to Macao students via the Continuing Education and Development Program launched by the Macao Education & Youth Affairs Bureau.

The Group also appointed the Hong Kong Examinations & Assessment Authority as the official TOEIC Speaking & Writing Test Center in Hong Kong. In addition, the Group was further appointed by ETS to be the representative of TOEFL ITP and TOEFL Junior tests in Hong Kong and Macao.

Meanwhile, the Group clinched an agreement with the Centennial Campus of the University of Hong Kong to provide our mimio interactive teaching technologies in the classrooms and lecture theatres. The Group has also entered into a contract with English School Foundation to replace their existing interactive whiteboard with mimio interactive teaching technologies.

In view of growing concerns about the development of e-Learning and prices of school textbooks, the Group is now actively working with other strategic partners to participate in the design and development of e-textbooks which will enhance the effectiveness of learning and teaching.

OUTLOOK

After years of unrelenting endeavors, the Group by now has built up the largest contemporary licensing music and professional sports content in the PRC. In addition, the aforesaid proposed acquisitions mark an important move by the Group to become an enterprise integrating culture, entertainment and sports. Under the Twelfth Five-Year Plan of the PRC, the PRC Government has put high emphasis on the realm of cultural creativity. Accordingly, the Group will continue to explore business opportunities to entrench its support in the Twelfth Five-Year Plan and to enhance its position in the industry. The Group is confident that the existing business strategy and business model will deliver long term benefits to the Group.

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 all members of the Board and staff for their dedication and contribution to the Group.

Hsu Tung Sheng
Chairman

Hong Kong, 27 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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e-Licensing Business

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FINANCIAL REVIEW

For the year ended 31 December 2012, the Group recorded a turnover of approximately HK$28,691,000, a slight decrease of approximately 2.1% from approximately HK$29,315,000 for the previous financial year.

During the reporting period, administrative expenses incurred by the Group were approximately HK$27,389,000 (2011: HK$21,718,000). The increase was mainly due to the increase in rental expenses, increase in depreciation and amortization, and increase in salaries.

During the reporting period, the Group recorded other operating expenses of approximately HK$86,285,000 (2011: HK$34,087,000). These included (i) an impairment loss on goodwill of approximately HK$5,000,000 for the e-Learning business primarily stemmed from keen competition in the provision of language enhancement programs; (ii) an impairment loss on interest in associates of approximately HK$21,518,000 resulting from the expiry of certain licenses of professional sports events; (iii) an allowance for doubtful debts on loans to and due from jointly controlled entities of approximately HK$20,225,000; and (iv) written off of prepayment to licensors of approximately HK$39,380,000, of which approximately HK$34,180,000 was confirmed to be expired in May 2012 by entering into a supplemental agreement with the licensor in December 2012.

As a result of the aforesaid impairment losses and allowance for doubtful debts, the Group reported a net loss attributable to equity holders of the Company for the year amounted to approximately HK$68,928,000 (2011: net loss of approximately HK$37,857,000).

Liquidity and financial resources

As at 31 December 2012, the Group had current assets of approximately HK$55,720,000 (2011: HK$61,955,000) and current liabilities of approximately HK$36,581,000 (2011: HK$12,811,000). The current assets were comprised mainly of bank balances and cash of approximately HK$17,528,000 (2011: HK$7,256,000) and accounts and other receivables of approximately HK$37,991,000 (2011: HK$54,285,000). The Group's current liabilities were comprised mainly of other payables of approximately HK$35,993,000 (2011: HK$12,811,000). The Group had no bank borrowings at 31 December 2012 and 2011. As at 31 December 2012, the Group had a current ratio of approximately 1.5 as compared to that of 4.8 at 31 December 2011.

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 2012, 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

In January 2012, the Group entered into an agreement relating to the investment of 20% equity interest in China Digital Entertainment Company Limited at a consideration of HK$400,000. The target company will be principally engaged in the promotion, sales and distribution of movie and music licensed contents.

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 2012, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2012, the Group had 49 (2011: 42) full-time employees. Employee costs for the year 2012, excluding directors' emoluments, amounted to approximately HK$9,311,000 (2011: HK$6,430,000). 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 in the Corporate Governance Code and Corporate Governance Report (the "Code Provision") as set out in Appendix 15 of the GEM Listing rules. The Company has complied with the Code Provision throughout the year ended 31 December 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 2012.

BOARD OF DIRECTORS AND BOARD MEETINGS

The board members for the year ended 31 December 2012 and up to the date of this report were:

Executive directors:

Mr. Hsu Tung Sheng *(Chairman)*
Mr. Hsu Tung Chi *(Chief Executive Officer)*
Mr. Pang Hong Tao
Ms. Au Shui Ming, Anna

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, material transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the day-to-day management, administration and operation of the Company are delegated to the senior management. These responsibilities include the implementation of decisions of the Board, the coordination and direction of day-to-day operation and management of the Company in accordance with the strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior management and the Board has the full support of them to discharge its responsibilities.

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

CORPORATE GOVERNANCE REPORT

In compliance with the requirements under Rules 5.05(1) and (2) of the GEM Listing Rules, the Company appointed three independent non-executive directors representing at least one-third of the board, 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:

	Board meeting	**General meeting**
Executive directors:		
Mr. Hsu Tung Sheng	14/16	1/2
Mr. Hsu Tung Chi	16/16	1/2
Mr. Pang Hong Tao	13/16	0/2
Ms. Au Shui Ming, Anna	16/16	2/2
Non-executive directors:		
Mr. Kwok Chi Sun, Vincent	13/16	0/2
Mr. Lee Kun Hung	13/16	1/2
Mr. Wong Tak Shing	13/16	2/2

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer of the Company are segregated and are not exercised by the same individual. Currently, Mr. Hsu Tung Sheng, who is the chairman of the Board, and is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst Mr. Hsu Tung Chi, who is 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 COMMITTEE

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 remuneration committee, with delegated responsibility, is responsible for determining remuneration package of individual executive directors and senior management, including but not limited to directors' fees, salaries, allowances, share options, benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The remuneration committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year under review, the remuneration committee held one meeting with the following attendance:

Members	Attendance
Mr. Kwok Chi Sun, Vincent	1/1
Mr. Lee Kun Hung	1/1
Ms. Au Shui Ming, Anna	1/1

NOMINATION COMMITTEE

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.

During the year under review, the nomination committee held one meeting with the following attendance:

Members	Attendance
Mr. Kwok Chi Sun, Vincent	1/1
Mr. Wong Tak Shing	1/1
Ms. Au Shui Ming, Anna	1/1

CORPORATE GOVERNANCE REPORT

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 responsibilities of the audit committee include the monitoring of the integrity of periodic financial statements and the annual report, interim report and quarterly reports, the review and monitoring of the auditor's independence, and the review of internal control system of the Group. 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	4/4
Mr. Wong Tak Shing	4/4

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2012 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.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all directors have participated in continuous professional development by attending training course, or reading materials/in house briefing on the topics related to corporate governance and regulations as follows:

	Reading materials/In house briefing	**Attending training course**
Executive directors:		
Mr. Hsu Tung Sheng	✓	
Mr. Hsu Tung Chi	✓	
Mr. Pang Hong Tao	✓	✓
Ms. Au Shui Ming, Anna	✓	✓
Independent non-executive directors:		
Mr. Lee Kun Hung	✓	
Mr. Kwok Chi Sun, Vincent	✓	✓
Mr. Wong Tak Shing	✓	✓

AUDITOR'S REMUNERATION

During the year ended 31 December 2012, 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	610
Non-audit services	199

COMPANY SECRETARY

Ms. Au Shui Ming, Anna has been the company secretary of the Company since November 2004. Ms. Au is a Certified Practising Accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. She reports to the Board and assists the Board in functioning effectively and efficiently. During the year, Ms. Au undertook not less than 15 hours of professional training to update her skill and knowledge.

INTERNAL CONTROL

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 statement by the external auditors about their responsibilities for the financial statements is set out in the Independent Auditor's Report contained in this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Group is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders.

CORPORATE GOVERNANCE REPORT

The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The Company also updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company has provided an effective communication platform to the public and the shareholders.

SHAREHOLDERS' RIGHTS

A. Procedures for the Shareholders to convene a special general meeting

Shareholders holding not less than one-tenth of the paid up capital of the Company may submit a written requisition to the Company to convene a special general meeting. The requisition must state the purpose of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong.

If the directors do not proceed duly to convene a special general meeting within twenty-one days from the deposit of the requisition, then the requisitionists (or any of them representing more than one half of the total voting rights of all of them) may themselves convene a meeting provided it is held within three months from the date of deposit of the requisition.

B. Procedures for putting forward proposals at a Shareholders meeting

Shareholders holding not less than one-twentieth of the total voting rights of all the shareholders having a right to vote at the meeting, or not less than one hundred shareholders of the Company, may submit to the Company a written request (a) to give to the shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting or (b) to circulate to the shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

A copy of such written request signed by the requisitionists must be deposited at the registered office of the Company or the Company's principal place of business in Hong Kong not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or one week before the meeting in the case of any other requisition.

INVESTOR RELATIONS

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquires to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

Upon the change of domicile become effective on 19 December 2012, the changes in the Company's constitutional documents, which were available on the websites of the Company and the Stock Exchange.

EXECUTIVE DIRECTORS

Mr. Hsu Tung Sheng, aged 45, 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 China Neng Xiao Technology (Group) Limited, a company listed on the GEM of the Stock Exchange.

Mr. Hsu Tung Chi, aged 44, 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 China Neng Xiao Technology (Group) Limited, a company listed on the GEM of the Stock Exchange.

Mr. Pang Hong Tao, aged 44, 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 and China Appraisal Society, a certified consultant expert in Shan Dong province and a certified senior enterprise risk manager in Asia. Mr. Pang has over fifteen 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 general manager in a management consultancy company and a partner in a Certified Public Accountants firm. Mr. Pang is currently the principal partner and president of a Certified Public Accountants firm in the PRC.

Ms. Au Shui Ming, Anna, aged 48, 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. She is also an independent non-executive director of Mitsumaru East Kit (Holdings) Limited, a company listed on the main board of the Stock Exchange.

DIRECTORS' PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwok Chi Sun, Vincent, aged 50, 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 six 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 China Neng Xiao Technology (Group) Limited, the former five named companies are listed on the 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 47, 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 23 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 50, 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 China Neng Xiao Technology (Group) 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.

The directors present the annual report and the audited financial statements of the Group for the year ended 31 December 2012.

DATE OF INCORPORATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands and continued in Bermuda as an exempted company with limited liability in accordance with the Companies Act 1981 (as amended) of Bermuda. The address of its registered office is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business in Hong Kong is Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

The Company's shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 February 2003.

CHANGE OF DOMICILE AND CAPITAL REORGANISATION

On 24 October 2012, the Board proposed to change the domicile of the Company by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda and to effect a capital reorganisation in the following manner: (i) the reduction of the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK$0.04 on each of the issued shares such that the nominal value of each issued share will be reduced from HK$0.05 to HK$0.01; (ii) the reduction of the authorised share capital of the Company by reducing the nominal value of all shares from HK$0.05 each to HK$0.01 each resulting in the reduction of the authorised share capital of the Company from HK$200,000,000 divided into 4,000,000,000 shares to HK$40,000,000 divided into 4,000,000,000 new shares; and (iii) increase in authorised share capital, which involved the increase of authorised share capital from HK$40,000,000 (divided into 4,000,000,000 new shares) to HK$200,000,000 (divided into 20,000,000,000 new shares) by the creation of 16,000,000,000 new shares. The credit arising from the capital reduction was transferred to the contributed surplus account of the Company. These proposals were approved at the extraordinary general meeting of the Company on 5 December 2012.

The change of the domicile of the Company from the Cayman Islands to Bermuda became effective on 19 December 2012 (Bermuda time), while the capital reorganization became effective on 9 January 2013. Following the change of domicile, the Company has adopted a new memorandum of continuance and Bye-laws in compliance with Bermuda law to replace the existing memorandum and articles of association of the Company.

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 2012 are set out in the consolidated statement of comprehensive income on page 32.

The directors do not recommend the payment of a dividend.

DIRECTORS' REPORT

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2012 are set out in the consolidated statement of changes in equity on pages 36 and 37.

DISTRIBUTABLE RESERVES

As at 31 December 2012, 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$173,515,000 as at 31 December 2012 (2011: HK$159,556,000).

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:

Executive directors:

Mr. Hsu Tung Sheng *(Chairman)*
Mr. Hsu Tung Chi *(Chief Executive Officer)*
Mr. Pang Hong Tao
Ms. Au Shui Ming, Anna

Independent non-executive directors:

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

In accordance with Bye-law of the Company, Mr. Hsu Tung Chi, Mr. Pang Hong Tao and Ms. Au Shui Ming, Anna 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 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)	0.77%
Mr. Hsu Tung Chi *(Note 1)*	Beneficial	19,000,000 (L)	0.77%
	Interest of controlled corporation	72,984,893 (L)	2.97%
Daily Technology Company Limited *(Note 1)*	Beneficial	72,984,893 (L)	2.97%
Mr. Pang Hong Tao	Beneficial	42,800,000 (L)	1.74%
Ms. Au Shui Ming, Anna	Beneficial	54,500,000 (L)	2.22%

(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)	0.61%
Mr. Hsu Tung Chi	Beneficial	15,000,000 (L)	0.61%
Mr. Pang Hong Tao	Beneficial	8,000,000 (L)	0.33%
Ms. Au Shui Ming, Anna	Beneficial	8,000,000 (L)	0.33%

(L) denotes long position

(iii) Interest in underlying shares

Number of shareholder	Nature of interests	Description of securities	Name of underlying shares	Approximate percentage of interests
Mr. Hsu Tung Chi	Beneficial	Convertible bonds *(Note 1)*	122,222,222 (L)	4.97%
	Interest of controlled corporation	Convertible bonds *(Note 1)*	62,797,872 (L)	2.55%
Daily Technology Company Limited	Beneficial	Convertible bonds *(Note 1)*	62,797,872 (L)	2.55%

(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 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 converted HK$3,000,000 principal amount of the convertible bonds into 31,914,893 shares on 11 October 2011, and transferred HK$18,000,000 principal amount of the convertible bonds to independent third parties on 11 October 2012. Under the SFO, Mr. Hsu is deemed to be interested in the outstanding 62,797,872 convertible bonds.

Save as disclosed above, as at 31 December 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 31 December 2012	Exercise price	Grant date	Exercisable period
				HK$		
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 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

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. Ma Bole *(Note 1)*	Interest of controlled corporations	497,698,238 (L)	20.24%
Ms. Xu Ziqi *(Note 1)*	Deemed	497,698,238 (L)	20.24%
Golden Mabole Culture Media Company Limited *(Note 1)*	Beneficial	497,698,238 (L)	20.24%
Ms. Chuang Meng Hua *(Note 2)*	Deemed	91,984,893 (L)	3.74%

(L) denotes long position

Notes:

1. Golden Mabole Culture Media Company Limited ("Golden Mabole") is wholly and beneficially owned by Mr. Ma Bole ("Mr. Ma"). Golden Mabole beneficially owns 497,698,238 shares. Under the SFO, Mr. Ma is deemed to be interested in 497,698,238 shares.

   Ms. Xu Ziqi is deemed to be interested in 497,698,238 shares by virtue of being the spouse of Mr. Ma.

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.

(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)	0.61%
	Deemed	Convertible bonds *(Note 1)*	185,020,094 (L)	7.52%

(L) denotes long position

Note:

1. Ms. Chuang Meng Hua is deemed to be interested in 15,000,000 share options and 185,020,094 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.

Save as disclosed above, as at 31 December 2012, 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.

EVENTS AFTER THE REPORTING PERIOD

(i) The Board proposed to reorganize its share capital in the following manner:

(a) Capital reduction which involves (i) the reduction of the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK$0.04 on each of the issued shares such that the nominal value of each issued share will be reduced from HK$0.05 to HK$0.01; and (ii) the reduction of the authorised share capital of the Company by reducing the nominal value of all shares from HK$0.05 each to HK$0.01 each resulting in the reduction of the authorised share capital of the Company from HK$200,000,000 divided into 4,000,000,000 shares to HK$40,000,000 divided into 4,000,000,000 new shares; and

(b) Increase in authorised share capital, which involves the increase of authorised share capital from HK$40,000,000 (divided into 4,000,000,000 new shares) to HK$200,000,000 (divided into 20,000,000,000 new shares) by the creation of 16,000,000,000 new shares.

The credit arising from the capital reduction was transferred to the contributed surplus account of the Company. The capital reorganization became effective on 9 January 2013.

(ii) On 11 January 2013, Silver Season Investments Limited ("Silver Season"), a wholly-owned subsidiary of the Company entered into an agreement with three vendors to acquire 100% equity interest of Nova Dragon International Limited ("Nova Dragon") at a total consideration of HK$47,250,000, which shall be settled by processing the Company to allot and issue 350,000,000 ordinary shares at the issue price of HK$0.135 per share.

Nova Dragon and its subsidiaries are principally engaged in assisting professional athletes with marketing and promotional activities in the Greater China Region.

(iii) On 15 January 2013, Silver Season entered into an agreement with seven vendors to acquire 80% equity interest of China Digital Entertainment Company Limited ("China Digital Entertainment") at a total consideration of HK$64,944,000, which shall be settled by processing the Company to allot and issue 405,900,000 ordinary shares at the issue price of HK$0.16 per share.

On 18 January 2012, Silver Season has already acquired 20% equity interests in the China Digital Entertainment at a consideration of HK$400,000. Hence, upon completion, the Company will be interested in the entire equity interests in the China Digital Entertainment and it will be accounted for as indirect wholly-owned subsidiaries of the Company.

China Digital Entertainment and its subsidiaries are principally engaged in the provision of business in the promotion, sales and distribution of movie and music licensed content worldwide and the organization of music concerts, programs and related services.

(iv) The share option scheme adopted by the Company on 24 January 2013 has been expired on 23 January 2013, the Board proposed to adopt the new share option scheme to enable the continuity of share option scheme of the Company. Details of the proposed adoption were set out in the circular dated 8 March 2013.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest customer and the five largest customers accounted for 24.1% (2011: 25.8%) and 51.0% (2011: 57.4%) respectively, of the Group's total turnover.

During the year, the Group's largest supplier and the five largest suppliers accounted for 38.1% (2011: 53.6%) and 63.6% (2011: 82.5%) 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 2012 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

27 March 2013

INDEPENDENT AUDITOR'S REPORT

MAZARS

To the shareholders of
China Digital Licensing (Group) Limited
(Incorporated in the Cayman Islands and continued in Bermuda 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 32 to 100, which comprise the consolidated and the Company's statements of financial position as at 31 December 2012, 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, in accordance with Section 90 of the Companies Act 1981 of Bermuda (as amended), 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.

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 2012 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, 27 March 2013

Eunice Y M Kwok
Practising Certificate number: P04604

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Turnover	5	**28,691**	29,315
Cost of services rendered and cost of goods sold		**(12,367)**	(11,106)
Gross profit		**16,324**	18,209
Other revenue	5	**708**	1,389
Other income	6	**462**	631
Selling and distribution costs		**(629)**	(539)
Administrative and other expenses		**(27,388)**	(21,718)
Other operating expenses		**(86,285)**	(34,087)
Finance costs	7	**(1,153)**	(1,310)
Share of results of associates	18	**388**	2,123
Loss before taxation	8	**(97,573)**	(35,302)
Income tax expense	11	**(681)**	(49)
Loss for the year		**(98,254)**	(35,351)
Other comprehensive income:			
Foreign currency translation differences		**–**	180
Total comprehensive loss for the year		**(98,254)**	(35,171)
(Loss) Profit attributable to:			
Equity holders of the Company	12	**(68,928)**	(37,857)
Non-controlling interests		**(29,326)**	2,506
		(98,254)	(35,351)
Total comprehensive (loss) income attributable to:			
Equity holders of the Company		**(68,928)**	(37,765)
Non-controlling interests		**(29,326)**	2,594
		(98,254)	(35,171)
Loss per share	14		
Basic and diluted		**HK (3.01) cents**	HK (1.71) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	15	**6,208**	6,607
Intangible assets	16	**2,866**	3,598
Interest in associates	18	**6,618**	27,348
Interest in jointly controlled entities	19	**–**	–
Loans to and due from jointly controlled entities	21	**345**	9,748
Goodwill	20	**21,296**	75,296
		37,333	122,597
Current assets			
Inventories	22	**94**	300
Accounts and other receivables	23	**37,991**	54,285
Tax recoverable		**107**	114
Bank balances and cash	24	**17,528**	7,256
		55,720	61,955
Current liabilities			
Account and other payables	25	**35,993**	12,811
Tax payable		**588**	–
		36,581	12,811
Net current assets		**19,139**	49,144
Total assets less current liabilities		**56,472**	171,741
Non-current liabilities			
Convertible bonds	26	**5,364**	24,246
Earn-out payable	27	**–**	18,000
Deferred tax liabilities	33	**4**	4
		5,368	42,250
NET ASSETS		**51,104**	129,491

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	28	**122,979**	112,655
Reserves		**(51,055)**	8,330
Equity attributable to equity holders of the Company		**71,924**	120,985
Non-controlling interests		**(20,820)**	8,506
TOTAL EQUITY		**51,104**	129,491

Approved and authorised for issue by the Board of Directors on 27 March 2013

Hsu Tung Sheng
Director

Hsu Tung Chi
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Interest in subsidiaries	*17*	**11,347**	106,142
Loans to a subsidiary	*34*	**40,000**	40,000
		51,347	146,142
Current assets			
Accounts and other receivables	*23*	**5,370**	2,902
Bank balances and cash	*24*	**12,573**	5,082
		17,943	7,984
Current liabilities			
Other payables	*25*	**13,980**	643
		13,980	643
Net current assets		**3,963**	7,341
Total assets less current liabilities		**55,310**	153,483
Non-current liabilities			
Convertible bonds	*26*	**5,364**	24,246
NET ASSETS		**49,946**	129,237
Capital and reserves			
Share capital	*28*	**122,979**	112,655
Reserves	*29*	**(73,033)**	16,582
TOTAL EQUITY		**49,946**	129,237

Approved and authorised for issue by the Board of Directors on 27 March 2013

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	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(iii))	Foreign currency translation reserve HK$'000 (note 29(vi))	Share options reserve HK$'000 (note 29(iv))	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
Total transactions with equity holders	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	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(iii))	Foreign currency translation reserve HK$'000 (note 29(vi))	Share options reserve HK$'000 (note 29(iv))	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 2012	112,655	159,556	10,084	291	178	12,251	5,680	(179,710)	8,330	120,985	8,506	129,491
Loss for the year and **total comprehensive loss for the year**	-	-	-	-	-	-	-	(68,928)	(68,928)	(68,928)	(29,326)	(98,254)
Transactions with equity holders												
Extinguishment of convertible bonds	-	-	-	-	-	-	(504)	-	(504)	(504)	-	(504)
Conversion of convertible bonds	9,574	10,614	-	-	-	-	(3,897)	-	6,717	16,291	-	16,291
Shares issued upon exercise of warrants	750	3,345	-	(15)	-	-	-	-	3,330	4,080	-	4,080
Total transactions with equity holders	10,324	13,959	-	(15)	-	-	(4,401)	-	9,543	19,867	-	19,867
At 31 December 2012	122,979	173,515	10,084	276	178	12,251	1,279	(248,638)	(51,055)	71,924	(20,820)	51,104

* 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(97,573)**	(35,302)
Depreciation and amortisation		**1,652**	324
Impairment loss on interest in associates		**21,518**	–
Written off of prepayments to licensors		**39,380**	–
Allowance for doubtful debts		**20,225**	–
Write-down of inventories		**162**	87
Impairment loss of goodwill arising from acquisition of subsidiaries		**5,000**	34,000
Gain on extinguishment of convertible bonds		**(208)**	(436)
Finance costs		**1,153**	1,310
Interest income		**(711)**	(1,395)
Share of results of associates		**(388)**	(2,123)
Changes in working capital:			
Inventories		**44**	(141)
Accounts and other receivables		**4,899**	(23,778)
Account and other payables		**6,063**	3,548
Cash from (used in) operations		**1,216**	(23,906)
Income taxes paid		**(86)**	–
Interest paid		**–**	(54)
Net cash from (used in) operating activities		**1,130**	(23,960)
INVESTING ACTIVITIES			
Subscription of share capital in an associate		**(400)**	–
Acquisition of interest in associates		**–**	(15,568)
Purchase of property, plant and equipment		**(521)**	(6,743)
Purchase of intangible assets		**–**	(3,659)
Revolving loans and advance to jointly controlled entities		**(11,351)**	(3,422)
Repayment of revolving loans from jointly controlled entities		**529**	9,380
Interest received		**711**	1,395
Net cash used in investing activities		**(11,032)**	(18,617)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
FINANCING ACTIVITIES			
Interest on convertible bonds paid		**(40)**	(41)
Proceeds from shares issued upon exercise of warrants		**4,080**	–
Advance from an individual/related party		**1,829**	5,122
Advance from directors		**14,305**	–
Net cash from financing activities		**20,174**	5,081
Net increase (decrease) in cash and cash equivalents		**10,272**	(37,496)
Cash and cash equivalents at beginning of year		**7,256**	44,645
Effect of foreign exchange rate changes, net		**–**	107
Cash and cash equivalents at end of year	*24*	**17,528**	7,256

1. CORPORATE INFORMATION

China Digital Licensing (Group) Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and continued in Bermuda. 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 Company's registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business is located at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are detailed 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 ("HKASs") 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 2011 consolidated financial statements. The adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year had no significant effects on the results and financial position of the Group and the Company for the current and prior years.

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

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 period 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, is measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable 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 even if this results in the non-controlling interests having a deficit balance.

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 Group 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Associates

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

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

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

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.

Initial 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 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

The Group's financial liabilities include account and other payables. 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Convertible bonds *(Continued)*

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.

Examination fee income from e-Learning business is recognised when the examinations are held and relevant 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currency translation *(Continued)*

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.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, investments in subsidiaries, associates and jointly controlled entities may be impaired 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).

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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 in profit or loss 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled transactions (Continued)

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 notes 18 and 20 to the consolidated financial statements.

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 HKAS 1	*Presentation of items of other comprehensive income* [1]
HKAS 19 (2011)	*Employee Benefits* [2]
HKAS 27 (2011)	*Separate Financial Statements* [2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [2]
HKFRS 10	*Consolidated financial statements* [2]
HKFRS 11	*Joint Arrangements* [2]
HKFRS 12	*Disclosures of Interests in Other Entities* [2]
Amendments to HKFRS 10, HKFRS 11, HKFRS 12	*Additional transition relief - Consolidated financial statements, Joint Arrangements, Disclosures of Interests in Other Entities* [2]

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Future changes in HKFRSs *(Continued)*

HKFRS 13	*Fair value measurement* [2]
Amendments to HKFRS 1	*First-time Adoption of Hong Kong Financial Reporting Standards* [2]
HK(IFRIC) – Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [2]
Various HKFRSs	*Annual Improvements Project – 2009 – 2011 Cycle* [2]
Amendments to HKFRS 7	*Disclosure – Offsetting Financial Assets and Financial Liabilities* [2]
Amendments to HKAS 32	*Presentation – Offsetting Financial Assets and Financial Liabilities* [3]
Amendments to HKAS 27 (2011), HKFRS 10, HKFRS 12	*Investment Entities – Amendments to Separate Financial Statements, Consolidated Financial Statements, Disclosures of Interests in Other Entities* [3]
HKFRS 9	*Financial Instruments* [4]
Amendments to HKFRS 9 and HKFRS 7	*Mandatory Effective Date of HKFRS 9, Financial Instruments, and Transition Disclosure* [4]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] 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 distribution of copyright-protected items and other entertainment-related business.

4. SEGMENTAL INFORMATION

(a) Segment revenue and results

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

	2012			2011		
	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	13,406	15,285	28,691	10,534	18,781	29,315
Loan interest income from jointly controlled entity	–	708	708	–	1,389	1,389
	13,406	15,993	29,399	10,534	20,170	30,704
Profit (Loss) for the year before the following items:	3,943	(3,505)	438	214	4,950	5,164
Impairment loss of goodwill	(5,000)	–	(5,000)	(3,000)	(31,000)	(34,000)
Written off of prepayments to licensors	–	(39,380)	(39,380)	–	–	–
Allowance for doubtful debts on loans to and due from jointly controlled entities	–	(20,225)	(20,225)	–	–	–
Segment results	(1,057)	(63,110)	(64,167)	(2,786)	(26,050)	(28,836)
Unallocated income			462			631
Unallocated expenses			(11,585)			(7,910)
Unallocated finance costs			(1,153)			(1,310)
Impairment loss on interest in associates			(21,518)			–
Share of results of associates			388			2,123
Loss before taxation			(97,573)			(35,302)
Taxation	(93)	(588)	(681)	(49)	–	(49)
Loss for the year			(98,254)			(35,351)

4. SEGMENTAL INFORMATION *(Continued)*

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

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 described in note 3 to the consolidated financial statements. Segment results represent the results achieved by each segment without allocation of central administration costs including directors' emoluments, share of result 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

	2012			2011		
	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	**9,283**	**42,782**	**52,065**	7,157	59,629	66,786
Goodwill	**2,751**	**18,545**	**21,296**	7,751	67,545	75,296
Interest in associates			**6,618**			27,348
Loans to and due from jointly controlled entities	**–**	**345**	**345**	–	9,748	9,748
Unallocated assets			**12,729**			5,374
Consolidated total assets			**93,053**			184,552
Segment liabilities	**5,822**	**29,858**	**35,680**	4,111	8,169	12,280
Unallocated liabilities			**6,269**			42,781
Consolidated total liabilities			**41,949**			55,061

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

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

4. SEGMENTAL INFORMATION *(Continued)*

(c) Other segment information

	2012			2011		
	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	**–**	**732**	**732**	–	61	61
Depreciation of property, plant and equipment	**25**	**895**	**920**	23	240	263
Capital expenditure	**36**	**485**	**521**	49	6,694	6,743

(d) Geographic information

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

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

	Revenue from external customers		Non-current assets	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Hong Kong	**13,406**	10,534	**2,945**	10,800
PRC	**15,285**	18,781	**34,043**	111,797
	28,691	29,315	**36,988**	122,597

4. SEGMENTAL INFORMATION *(Continued)*

(e) Information about major customers

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

	Group	
	2012	2011
	HK$'000	HK$'000
Customer A	**6,913**	7,568
Customer B	**3,488**	5,488
Customer C	**–**	3,150
	10,401	16,206

Other than as disclosed above, no other sales to a single customer of the Group accounted for 10% or more of total revenue of the Group for both years.

5. TURNOVER AND REVENUE

Turnover generated from e-Learning business segment represents subscription fees for the on-line education programs and examination fee as well as sales 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	
	2012	2011
	HK$'000	HK$'000
Turnover		
e-Learning business		
– Subscription income	**10,062**	9,142
– Sale of learning products	**1,370**	1,273
– Examination fee income	**1,974**	119
	13,406	10,534
e-Licensing business		
– Provision of music contents service income	**6,913**	7,568
– System development consultancy service income	**7,322**	8,063
– Agency service income	**1,050**	3,150
	15,285	18,781
	28,691	29,315
Other revenue		
Loan interest income from jointly controlled entity	**708**	1,389
Total revenue	**29,399**	30,704

6. OTHER INCOME

	Group	
	2012	2011
	HK$'000	HK$'000
Bank interest income	**3**	6
Gain on extinguishment of convertible bonds	**208**	436
Sundry income	**251**	189
	462	631

7. FINANCE COSTS

	Group	
	2012	2011
	HK$'000	HK$'000
Interest on convertible bonds	**1,153**	1,256
Other loan interest expenses	**–**	54
	1,153	1,310

8. LOSS BEFORE TAXATION

This is stated after charging:

	Group	
	2012	2011
	HK$'000	HK$'000
Employee benefits expenses (including directors' remuneration)		
Salaries and allowances	**10,775**	7,334
Contribution to defined contribution retirement schemes	**1,600**	931
	12,375	8,265
Auditor's remuneration	**610**	550
Amortisation of intangible assets (included in administrative and other expenses)	**732**	61
Cost of goods sold	**932**	842
Cost of services rendered	**11,435**	10,264
Depreciation of property, plant and equipment	**920**	263
Allowance for doubtful debts on loans to and due from jointly controlled entities	**20,225**	–
Written off of prepayments to licensors	**39,380**	–
Impairment loss of goodwill arising from acquisition of subsidiaries included in other operating expenses	**5,000**	34,000
Impairment loss on interest in associates included in other operating expenses	**21,518**	–
Operating lease payments on hire of equipment	**197**	54
Operating lease payments on premises	**1,759**	492
Write-down of inventories	**162**	87

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	Contribution to defined contribution retirement schemes HK$'000	Total HK$'000
Year ended 31 December 2012				
Executive directors				
Hsu Tung Sheng	120	680	–	800
Hsu Tung Chi	120	856	–	976
Pang Hong Tao	240	–	–	240
Au Shui Ming, Anna	120	600	148	868
	600	2,136	148	2,884
Independent non-executive directors				
Kwok Chi Sun, Vincent	60	–	–	60
Lee Kun Hung	60	–	–	60
Wong Tak Shing	60	–	–	60
	180	–	–	180
	780	2,136	148	3,064

9. DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees HK$'000	Salaries and allowances HK$'000	Contribution to defined contribution retirement schemes HK$'000	Total HK$'000
Year ended 31 December 2011				
Executive directors				
Hsu Tung Sheng	210	–	–	210
Hsu Tung Chi (appointed on 1 February 2011)	200	388	–	588
Pang Hong Tao	240	–	–	240
Au Shui Ming, Anna	120	480	12	612
	770	868	12	1,650
Non-executive director				
Ma She Sing, 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

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 December 2012 and 2011. 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 2012 and 2011.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2011: 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 two (2011: three) highest paid individuals, who are not directors, for the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries and allowances	**706**	971
Contribution to defined contribution retirement schemes	**17**	12
	723	983

The above two (2011: three) highest paid individuals fell within the band of nil to HK$1,000,000.

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 2012 and 2011.

11. 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 year.

PRC Enterprise Income Tax ("EIT") has not been provided as the PRC subsidiary incurred a loss for taxation purpose during the year. In 2011, EIT has not been provided as the PRC subsidiary's estimated assessable profits for the year are wholly absorbed by unrelieved tax loss brought forward from previous years.

	Group	
	2012	2011
	HK$'000	HK$'000
Hong Kong Profits Tax		
Current year provision	**693**	49
Overprovision in prior year	**(12)**	–
Tax expense for the year	**681**	49

11. TAXATION *(Continued)*

Reconciliation of effective tax rate

	Group	
	2012	2011
	%	%
Income tax at applicable tax rate	**(17.6)**	(15.7)
Share of results of associates	**–**	(1.0)
Non-deductible expenses	**18.1**	17.0
Non-taxable revenue	**(2.3)**	(1.5)
Unrecognised tax losses	**2.5**	3.6
Unrecognised temporary differences	**–**	(0.1)
Utilisation of previously unrecognised tax losses	**–**	(1.0)
Others	**–**	(1.2)
Effective tax rate for the year	**0.7**	0.1

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 2012 includes a loss of HK$99,158,000 (2011: HK$28,804,000) 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 both years.

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:

	2012	2011
	HK$'000	HK$'000
Loss		
Loss attributable to equity holders of the Company	**(68,928)**	(37,857)

	2012	2011
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue during the year	**2,289,571**	2,216,970

Diluted loss per share for 2012 and 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.

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 2011	–	–	407	407
Effect of foreign currency exchange differences	65	5	5	75
Additions	5,862	441	440	6,743
At 31 December 2011 and 1 January 2012	**5,927**	**446**	**852**	**7,225**
Additions	**278**	**62**	**181**	**521**
At 31 December 2012	**6,205**	**508**	**1,033**	**7,746**
Accumulated depreciation				
At 1 January 2011	–	–	353	353
Effect of foreign currency exchange differences	2	–	–	2
Depreciation	199	7	57	263
At 31 December 2011 and 1 January 2012	**201**	**7**	**410**	**618**
Depreciation	**623**	**98**	**199**	**920**
At 31 December 2012	**824**	**105**	**609**	**1,538**
Net book value				
At 31 December 2012	**5,381**	**403**	**424**	**6,208**
At 31 December 2011	5,726	439	442	6,607

16. INTANGIBLE ASSETS

Group

	Software license right HK$'000
Cost	
At 1 January 2011	–
Additions	**3,659**
At 31 December 2011 and 2012	**3,659**
Accumulated amortisation	
At 1 January 2011	–
Amortisation	**61**
At 31 December 2011 and 1 January 2012	**61**
Amortisation	**732**
At 31 December 2012	**793**
Net book value	
At 31 December 2012	**2,866**
At 31 December 2011	**3,598**

17. INTEREST IN SUBSIDIARIES

	Note	Company 2012 HK$'000	2011 HK$'000
Unlisted shares, at cost		**1**	1
Due from subsidiaries	(i)	**173,342**	180,122
Provision for impairment losses		**(161,996)**	(73,981)
		11,346	106,141
		11,347	106,142

17. INTEREST IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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	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
Sky Asia Investments Limited	Hong Kong/ limited liability company	Hong Kong	Ordinary HK$1	–	51%	Investment holding

17. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ type of legal entity	Place of operation	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Beijing LianYiHuiZhong Technology Company Limited* 北京聯易匯眾科技有限公司	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
Silver Season Investments Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$1	–	100%	Investment holding

* English translation of company name is for identification purpose only.

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 value of the amounts due from subsidiaries approximate their fair value.

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 2012 HK$'000	Group 2011 HK$'000
Unlisted shares		
Goodwill	–	21,518
Share of net assets	6,618	5,830
	6,618	27,348

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

Name of associate	Place of incorporation/ type of legal entity	Place of operation	Nominal value of issued ordinary share/ registered capital	Proportion of nominal value of issued/registered capital held by the Group	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/ type of legal entity	Place of operation	Nominal value of issued ordinary share/ registered capital	Proportion of nominal value of issued/registered capital held by the Group	Principal activities
Shenzhen Chuangzhan Corporate Image Planning Limited* 深圳創展企業形象策劃有限公司	The PRC/ foreign wholly-owned enterprise	The PRC	Paid-up capital RMB500,000	25%	Investment holding
China Sports (Beijing) Media Limited* 體奧動力(北京)體育傳播有限公司	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* 上海壹體動力文化體育傳播有限公司	The PRC/ private enterprise	The PRC	Paid-up capital RMB2,000,000	25%	Licensing of professional sports events and entertainment content in the PRC
China Digital Entertainment Company Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary US$1,000	20%	Investment holding
China Digital Entertainment Company Limited	Hong Kong/ limited liability company	Hong Kong	Ordinary HK$1,000	20%	Promotion, sales and distribution of licensed digital music concert

* English translation of company name is for identification purpose only.

In January 2012, Silver Seasons Investment Limited, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party to subscribe for 20% equity interest of China Digital Entertainment Company Limited, an unlisted private entity, at an aggregate consideration of HK$400,000 which was settled by cash. The acquisition was completed in January 2012.

18. INTEREST IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information of the associates as of and for the years ended 31 December 2012 and 2011:

	2012	2011
	HK$'000	HK$'000
Financial position at end of reporting period		
Total non-current assets	**20,906**	54,123
Total current assets	**37,978**	54,702
Total current liabilities	**(28,591)**	(61,581)
Total non-current liabilities	**(3,686)**	(23,924)
Net assets	**26,607**	23,320
Group's share of net assets of associates	**6,618**	5,830
Operating results for the year		
Total revenue	**88,233**	62,833
Total profit for the year	**1,288**	21,848
Group's share of results of associates	**388**	2,123

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

Because certain licenses of professional sports events cannot be renewed upon the expiry of the respective license periods in late 2012, the Group appointed an independent professional valuer to perform an appraisal of the market value of the business of the associates engaging in the licensing of professional sports events and entertainment content businesses as at 31 December 2012. The recoverable amount of the business has been determined based on a value-in-use calculation using cash flow projections based on the financial budget covering a 5-year period. The carrying amount of the business exceeded its recoverable amount by HK$21,518,000 (2011: Nil) and therefore, the directors decided to recognise an impairment loss on interest in associates by the same amount (2011: 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 the assets of the associate is considered necessary. The discount rate used for value-in-use calculations is 19% (2011: 16%).

19. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	2012	2011
	HK$'000	HK$'000
Unlisted shares		
Share of net liabilities	**–**	–

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/ type 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* 北京易來申科技有限公司	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* 上海易來申科技有限公司	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

* English translation of company name is for identification purpose only.

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 2012 and 2011:

	2012		2011	
	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	**173**	**44**	294	75
Total current assets	**871**	**222**	1,474	376
Total current liabilities	**(25,876)**	**(6,598)**	(22,500)	(5,738)
Net liabilities	**(24,832)**	**(6,332)***	(20,732)	(5,287)*
Operating results for the year				
Revenue	**687**	**175**	235	60
Loss for the year	**(4,098)**	**(1,045)***	(5,238)	(1,336)*

* 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$1,045,000 (2011: HK$1,336,000) and HK$4,368,000 (2011: HK$3,323,000) 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	
	2012	2011
	HK$'000	HK$'000
Reconciliation of carrying amount		
At beginning of reporting period	**75,296**	109,296
Adjustments to purchase consideration	**(49,000)**	–
Impairment losses	**(5,000)**	(34,000)
At end of reporting period	**21,296**	75,296
At 31 December		
Cost	**60,296**	109,296
Accumulated impairment losses	**(39,000)**	(34,000)
	21,296	75,296

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.

According to the terms of the acquisition of 12% equity interest in Far Glory Limited and its subsidiaries (collectively referred to as "Far Glory Group") in 2008, the vendor, Mr. Hsu Tung Chi (a director of the Company since 1 February 2011) provided profit guarantees to the Group, details of which have been disclosed in notes 26(i) and 27 to these consolidated financial statements. As Far Glory Group failed to achieve the guaranteed profit, the convertible bonds with principal amounts of HK$4,000,000 was extinguished and the earn-out payable of HK$18,000,000 was forfeited during the year. The Group was also entitled to a cash compensation of HK$27,000,000 from the vendor. Consequently, the purchase consideration of the business combination and the carrying value of the goodwill have been adjusted by the aggregate amount of HK$49,000,000.

20. GOODWILL *(Continued)*

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	
	2012	2011
	HK$'000	HK$'000
e-Learning business	**2,751**	7,751
e-Licensing business	**18,545**	67,545
	21,296	75,296

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

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 in provision language enhancement programs, 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$5,000,000 (2011: HK$3,000,000). 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

In light of the keen competition in the industry of the provision of licensed music content on the mobile music platforms in the PRC and the non-fulfilment of the profit guarantee as mentioned above, the Group appointed an independent professional valuer to perform an appraisal of the market value of the e-Licensing business as at 31 December 2012. Because of keen competition, 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.

20. GOODWILL *(Continued)*

The recoverable amount of the CGU exceeded its carrying amount based on value-in-use calculations. Accordingly, the goodwill was not impaired during the year. During the year ended 31 December 2011, impairment loss of HK$31,000,000 was recognised for the Group's e-Licensing business.

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

	e-Learning		e-Licensing	
	2012	2011	**2012**	2011
Gross profit margin	**39%-45%**	48%-58%	**42%-47%**	34%-36%
Average growth rate	**5%-8%**	4%-8%	**10%-20%**	4%-25%
Long-term growth rate	**–**	–	**3%**	3%
Discount rate	**10%**	9%	**22%**	21%

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.

21. LOANS TO AND DUE FROM JOINTLY CONTROLLED ENTITIES

		Group	
		2012	2011
	Note	**HK$'000**	HK$'000
Due from jointly controlled entities	*(i)*	**4,106**	549
Loans to a jointly controlled entity	*(ii)*	**16,464**	9,199
		20,570	9,748
Allowances for doubtful debts	*(iii)*	**(20,225)**	–
		345	9,748
Current portion		**–**	–
Non-current portion		**345**	9,748

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

Notes:

(i) 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.

(ii) 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$16,464,000 (2011: HK$9,199,000) as at 31 December 2012.

(iii) Impairment losses were made in respect of the loans to and amount due from jointly controlled entities because these jointly controlled entities have continuously generated substantial losses and the directors are of the opinion that the probability of recovering the loans to and amount due from these jointly controlled entities would be remote.

The carrying value of the loans and amounts due approximates their fair value.

22. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Finished goods	**94**	300

23. ACCOUNTS AND OTHER RECEIVABLES

		Group		Company	
		2012	2011	**2012**	2011
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accounts receivable					
From third parties	*(i)*	**8,007**	9,830	**–**	–
Other receivables					
Deposits, prepayments and other receivables		**1,993**	2,686	**150**	405
Prepayments to licensors	*(ii)*	**–**	41,769	**–**	–
Loan interest receivable from a subsidiary		**–**	–	**5,220**	2,497
Due from an associate	*(iii)*	**6**	–	**–**	–
Due from a director	*(iv)*	**27,985**	–	**–**	–
		29,984	44,455	**5,370**	2,902
		37,991	54,285	**5,370**	2,902

Notes:

(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$2,953,000 (2011: HK$4,868,000), 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.

23. ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

(i) Accounts receivable *(Continued)*

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	
	2012	2011
	HK$'000	HK$'000
0 – 30 days	**5,918**	9,029
31 – 60 days	**748**	309
61 – 90 days	**278**	213
Over 90 days	**1,063**	279
	8,007	9,830

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	
	2012	2011
	HK$'000	HK$'000
Current	**5,054**	4,962
Less than 1 month past due	**864**	4,067
1 month to 3 months past due	**1,026**	522
Over 3 months past due	**1,063**	279
	2,953	4,868
	8,007	9,830

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

23. ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

(ii) Prepayments to licensors

Included in prepayments to licensors as at 31 December 2011 was a prepaid license fee of HK$36,623,000, 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 had been negotiating with the licensor of music contents for an extension of the license period to which the prepayment is related. The licensor had 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 had been signed as of the date of the consolidated financial statements for the year ended 31 December 2011, the directors considered the extension of the license period to May 2013 highly probable and the music downloading business had been processing well since its launch in February 2011. Thus no impairment loss on the prepayment of HK$36,623,000 as at 31 December 2011 was considered necessary. In December 2012, the Company and the licensor entered into a supplemental agreement, pursuant to which the unamortised prepaid license fee of HK$34,234,000 was confirmed to be expired in May 2012. As such, the prepayment to licensor of HK$34,234,000 as at 31 December 2012 was written off during the year.

(iii) Due from an associate

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

(iv) Due from a director

The amount due from a director is unsecured, interest-free and has no fixed repayment term. The amount was fully settled subsequent to the end of the reporting period. The carrying value of the amount due from director approximates its fair value. Details of the amount due from director are as follows:

Name of director	**Maximum amount outstanding during the year**	**2012**	2011
	HK$'000	**HK$'000**	HK$'000
Hsu Tung Chi	27,985	**27,985**	–

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**17,528**	7,256	**12,573**	5,082

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

25. ACCOUNT AND OTHER PAYABLES

		Group		Company	
	Note	**2012**	2011	**2012**	2011
		HK$'000	HK$'000	**HK$'000**	HK$'000
Account payable					
To third party	*(i)*	**2,323**	–	**–**	–
Other payables					
Deferred income		**2,059**	2,090	**–**	–
Accrued charges and other payables		**9,025**	5,599	**539**	643
Due to directors	*(ii)*	**15,290**	–	**13,441**	–
Due to an individual/related party	*(iii)*	**6,951**	5,122	**–**	–
Due to a jointly controlled entity	*(iv)*	**345**	–	**–**	–
		33,670	12,811	**13,980**	643
		35,993	12,811	**13,980**	643

25. ACCOUNT AND OTHER PAYABLES *(Continued)*

Notes:

(i) Account payable

At the end of the reporting period, the ageing analysis of account payable is in the range of zero to 30 days.

(ii) Due to directors

The amounts due to the Company's directors, Mr. Hsu Tung Chi and Mr. Hsu Tung Sheng, are unsecured, interest-free and have no fixed repayment term. The carrying value of the amounts due to directors approximate their fair value.

(iii) Due to an individual/related party

The individual is the shareholder of a company which was substantial shareholder of the Company (i.e. which was interested in 10% or more of the nominal value of share capital of the Company) up to November 2012. The amount due is unsecured, interest-free and has no fixed repayment term. The carrying value of the amount due to the individual approximates its fair value.

(iv) Due to a jointly controlled entity

The amount due is unsecured, interest-free and has no fixed repayment term. The carrying value of the amount due to a jointly controlled entity approximates its fair value.

26. CONVERTIBLE BONDS

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

		Group and Company	
	Note	**2012 HK$'000**	2011 HK$'000
Liability component at 1 January		**24,246**	26,102
Extinguishment of convertible bonds	*(i)*	**(3,704)**	(4,002)
Reissuance of convertible bonds	*(i)*	**–**	3,496
Conversion of convertible bonds	*(ii)*	**(16,291)**	(2,565)
Interest expenses		**1,153**	1,256
Interest paid/payable		**(40)**	(41)
Liability component at 31 December		**5,364**	24,246
Portion classified as non-current		**(5,364)**	(24,246)
Current portion		**–**	–
Equity component at 1 January		**5,680**	6,260
Extinguishment of convertible bonds	*(i)*	**(504)**	(434)
Reissuance of convertible bonds	*(i)*	**–**	504
Conversion of convertible bonds	*(ii)*	**(3,897)**	(650)
Equity component at 31 December		**1,279**	5,680

Notes:

(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 Group. The convertible bonds would be matured on the third anniversary from the date of issue.

The bondholder might convert the whole or part (in multiples of HK$1,000,000) of the Convertible Bond of HK$4,000,000 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 of not less than HK$15,000,000), into shares at conversion price of HK$0.18, subject to adjustments, for the period commencing from (1) the date when the average guaranteed profit has been fulfilled or (2) if there is any shortfall between the actual average of the audited consolidated net 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.

26. CONVERTIBLE BONDS *(Continued)*

(i) (Continued)

In April 2011, the Group signed a supplemental 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 supplemental agreement, the vendor/guarantor has warranted/guaranteed that (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 ("New Average Guaranteed Profit") 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. If Far Glory Group fails to achieve the New Average Guaranteed Profit or the 2011 Actual Profit is less than HK$30,000,000, the vendor shall pay compensation in cash, the maximum of which will be capped at HK$27,000,000.

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 has been 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 in 2011.

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.

At 31 December 2012, the Convertible Bond to acquire 12% equity interest in Far Glory and its subsidiaries was extinguished because of the non-fulfillment of the revised guaranteed profit. As a result, the purchase consideration of the business combination and the related goodwill was decreased by HK$4,000,000 as at 31 December 2012. The gain arising from such extinguishment of HK$208,000 has been recognised in the current year's profit or loss.

(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$18,000,000 (2011: HK$3,000,000) were converted into shares of the Company.

27. EARN-OUT PAYABLE

Earn-out payable as of 31 December 2011 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 bond that shall be issued by the Company if the actual average of the audited consolidated net profit after tax and extraordinary or exceptional items of Far Glory Group for the years ending 31 December 2009 and 2010 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 ending 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, negotiated with the counterparties for the settlement of the shortfall of the guaranteed profit, which included extension of the time for fulfillment of an agreed guaranteed profit.

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

(i) HK$5,400,000 by the issuance of extra convertible bonds 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

(ii) HK$18,000,000 by the issuance of extra convertible bonds provided that (1) the Average Actual Profits 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 both conditions stated above could not be fulfilled, the earn-out payable of HK$18,000,000 was forfeited and derecognised by adjusting to the purchase consideration of the business combination and the related goodwill.

28. SHARE CAPITAL

	Note	Number of shares	Amount HK$'000
Authorised:			
At 31 December 2011 and 2012, ordinary shares of HK$0.05 each		4,000,000,000	200,000
Issued and fully paid:			
At 1 January 2011, ordinary shares of HK$0.05 each		2,195,085,643	109,754
Shares issued for acquisition of 25% equity interest in associates		26,100,503	1,305
Shares issued upon conversion of convertible bonds		31,914,893	1,596
At 31 December 2011, ordinary shares of HK$0.05 each		2,253,101,039	112,655
Shares issued upon exercise of warrants	*(i)*	15,000,000	750
Shares issued upon conversion of convertible bonds	*(ii)*	191,489,360	9,574
At 31 December 2012, ordinary shares of HK$0.05 each		**2,459,590,399**	**122,979**

Notes:

(i) Details and movements of the Company's unlisted warrants are included in note 31 to the consolidated financial statements.

(ii) During the year, the bondholders converted the convertible bonds with nominal value of HK$18,000,000 into 191,489,360 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 2012 rank pari passu with the existing shares in all respects.

29. RESERVES

Company

	Share premium HK$'000 (note (i))	Contributed surplus HK$'000 (note (ii))	Warrant reserve HK$'000 (note (iii))	Share option reserve HK$'000 (note (iv))	Convertible bonds reserve HK$'000 (note (v))	Accumulated losses HK$'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 and **total comprehensive loss for the year**	–	–	–	–	–	(28,804)	(28,804)
Transactions with equity holders							
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
At 1 January 2012	**159,556**	**3,047**	**291**	**12,251**	**5,680**	**(164,243)**	**16,582**
Loss for the year and **total comprehensive loss for the year**	**–**	**–**	**–**	**–**	**–**	**(99,158)**	**(99,158)**
Transactions with equity holders							
Extinguishment of convertible bonds	**–**	**–**	**–**	**–**	**(504)**	**–**	**(504)**
Conversion of convertible bonds	**10,614**	**–**	**–**	**–**	**(3,897)**	**–**	**6,717**
Share issued upon exercise of warrants	**3,345**	**–**	**(15)**	**–**	**–**	**–**	**3,330**
	13,959	**–**	**(15)**	**–**	**(4,401)**	**–**	**9,543**
At 31 December 2012	**173,515**	**3,047**	**276**	**12,251**	**1,279**	**(263,401)**	**(73,033)**

29. RESERVES *(Continued)*

Notes:

(i) The share premium represents the excess of the proceeds or considerations from issuance of the Company's shares over their par value. The share premium of the Company is available for distribution to shareholders subject to certain requirements of the Company Act 1981 of Bermuda (as amended).

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

(iii) 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.

(iv) 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. Included in share option reserve was an amount of HK$1,928,000 (2011: HK$1,928,000) relating to the share options lapsed in previous years due to resignation of certain employees.

(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) 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.

(vii) The Company did not have reserves available for distribution to the equity holders of the Company as at 31 December 2012 and 2011.

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 Scheme is valid and effective for a period of ten years. On 8 March 2013, the board of directors proposed the adoption of a new share option scheme (the "New Share Option Scheme"), which shall replace the old share option scheme that expired on 23 January 2013. A special general meeting will be held on 27 March 2013 to approve the adoption of the proposed New Share Option Scheme.

30. SHARE OPTION SCHEME *(Continued)*

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 shares of the Company from time to time. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the Scheme and any other share option scheme adopted by the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

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

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

Details of specific categories of share options are as follows:

Date of grant	Exercise period	Exercise price HK$	Fair value at grant date 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.

30. SHARE OPTION SCHEME *(Continued)*

The fair value of the share options is determined using a binomial pricing model. The variables 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.

The following table discloses movements of the Company's number of share options held by employees and directors during the years ended 31 December 2011 and 2012:

Year ended 31 December 2012

Grant date	**Exercise period**	**Exercise price** HK$	**Outstanding at 1/1/2012**	**Granted during the year**	**Exercised during the year**	**Outstanding at 31/12/2012**
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 2011

Grant date	Exercise period	Exercise price HK$	Outstanding at 1/1/2011	Granted during the year	Exercised during the year	Outstanding at 31/12/2011
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

No share options were exercised during the year.

The share options outstanding at 31 December 2012 have an exercise price of HK$0.44 or HK$0.475 (2011: HK$0.44 or HK$0.475) and a weighted average remaining contractual life of 0.95 year (2011: 1.95 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 of the Company at the subscription price of HK$0.272 within a period of three years commencing from the date of issue of the unlisted warrants.

During the year, 15,000,000 unlisted warrants were exercised for a total cash consideration, before expenses, of HK$4,080,000. No unlisted warrants were exercised in 2011.

32. RETIREMENT BENEFITS SCHEMES

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Schemes"). The assets of the MPF Schemes are held separately in provident funds managed by independent trustees. Under the MPF Schemes, the Group and each of the employees make monthly contributions to the schemes 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$25,000 since June 2012.

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$1,600,000 (2011: HK$931,000).

33. DEFERRED TAXATION

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

	Accelerated tax depreciation	
	2012	2011
	HK$'000	HK$'000
At 1 January and 31 December	**4**	4

(b) Unrecognised deferred tax assets

As at 31 December 2012, tax losses of HK$10,157,000 (2011: HK$276,000) 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.

33. DEFERRED TAXATION *(Continued)*

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

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

	Group	
	2012	2011
	HK$'000	HK$'000
Year of expiry		
2016	**276**	276
2017	**9,881**	–
	10,157	276

The retained earnings of certain PRC subsidiaries would be subject to additional taxation if they are distributed. The estimated withholding tax effects on the distribution of retained earnings of these PRC entities were approximately HK$33,000 (2011: HK$199,000). 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 was 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.

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

Connected transactions *(Continued)*

As at 31 December 2012, HK$40,000,000 (2011: HK$40,000,000) was drawn down and the related interest income of HK$2,723,000 (2011: HK$2,269,000) 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.

Other related party transactions

		Group	
		2012	2011
Related party relationship	**Nature of transaction**	**HK$'000**	HK$'000
Key management personnel (excluding directors)	Salaries and allowances	**670**	800
Jointly controlled entity	Research and development income	**334**	–
	Loan interest income	**708**	1,389
Director of the Company, Mr. Hsu Tung Chi	Interest on convertible bonds	**179**	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	
	2012	2011
	HK$'000	HK$'000
Within one year	**1,013**	937
In the second to fifth years inclusive	**190**	132
	1,203	1,069

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 account and other payables, which arise directly from its business activities.

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

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

	Loans and receivables			
	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets as per statements of financial position				
Loans to and due from jointly controlled entities	**345**	9,748	**–**	–
Due from subsidiaries	**–**	–	**11,346**	106,141
Loans to a subsidiary	**–**	–	**40,000**	40,000
Accounts and other receivables	**37,468**	11,382	**5,370**	2,902
Bank balances and cash	**17,528**	7,256	**12,573**	5,082
Total	**55,341**	28,386	**69,289**	154,125

	Other financial liabilities			
	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities as per statements of financial position				
Account and other payables	**33,934**	10,721	**13,980**	643
Convertible bonds	**5,364**	24,246	**5,364**	24,246
Earn-out payable	**–**	18,000	**–**	–
Total	**39,298**	52,967	**19,344**	24,889

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.

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

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group resulting in a loss to the Group. The Group's credit risk is primarily attributable to 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 recognised and 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 financial statements. 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 25% (2011: 36%) and 61% (2011: 77%) 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 78% (2011: 54%) 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 the bank balances held by the Group 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

	2012					2011				
	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
Account and other payables	33,934	33,934	33,934	-	-	10,721	10,721	10,721	–	–
Convertible bonds	5,364	5,903	-	-	5,903	24,246	30,903	–	–	30,903
Earn-out payable	-	-	-	-	-	18,000	18,000	–	–	18,000
	39,298	39,837	33,934	-	5,903	52,967	59,624	10,721	–	48,903
Undrawn loan commitment to a jointly controlled entity	-	536	536	-	-	–	7,801	7,801	–	–
	39,289	40,373	34,470	-	5,903	52,967	67,425	18,522	–	48,903

Company

	2012					2011				
	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	13,980	13,980	13,980	-	-	643	643	643	–	–
Convertible bonds	5,364	5,903	-	-	5,903	24,246	30,903	–	–	30,903
	19,344	19,883	13,980	-	5,903	24,889	31,546	643	–	30,903

Fair value

The carrying amount 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 2012 and 2011.

37. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group'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 2012 and 2011.

38. EVENTS AFTER THE REPORTING PERIOD

Other than disclosed elsewhere in these consolidated financial statements, the Group had the following events after the end of the reporting period:

(i) In January 2013, the Group entered into an agreement with independent third parties to acquire additional 80% equity interest in China Digital Entertainment Company Limited ("CDE") and its subsidiary (collectively referred to as "CDE Group"), which is an associate of the Group as at 31 December 2012, at an aggregate consideration of HK$64,944,000, which shall be settled by the allotment and issue of 405,900,000 consideration shares of the Company at the issue price of HK$0.16 and credited as fully paid upon completion.

Pursuant to the agreement, the vendors have covenanted and guaranteed to the Group that the audited consolidated net profit after taxation but before extraordinary items of the CDE Group for the financial year ending 31 December 2013 shall not be less than HK$8,200,000. In the event the actual net profit is less than the profit guarantee, the vendors shall compensate the Group on the shortfall which refers to 80% of the difference between the profit guarantee and the actual net profit.

Upon completion of the acquisition, the CDE Group will become wholly-owned subsidiaries of the Group. The principal activities of CDE Group are the promotion, sales and distribution of movie and music licensed content worldwide and the organisation of concerts, programs and related services. The directors expect that the transaction will be completed not later than June 2013.

38. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(ii) In January 2013, the Group entered into an agreement with the vendors to acquire the entire equity interest in Nova Dragon International Limited and its subsidiaries (collectively referred to as "Nova Group"), a company incorporated in the British Virgin Islands, at an aggregate consideration of HK$47,250,000, which shall be settled by the allotment and issue of an aggregate of 350,000,000 consideration shares of the Company at the issue price of HK$0.135 and credited as fully paid upon completion.

Pursuant to the agreement, the vendors have covenanted and guaranteed to the Group that the audited consolidated net profit after taxation but before extraordinary items of the Nova Group for the financial year ending 31 December 2013 shall not be less than HK$4,800,000. In the event the actual net profit is less than the profit guarantee, the vendors shall compensate the Group on the shortfall which refers to the difference between the profit guarantee and the actual net profit.

Nova Group is principally engaged in assisting professional athletes with marketing and promotional activities in the PRC. The directors expect that the transaction will be completed not later than June 2013.

(iii) In January 2013, the Company had undergone a reorganisation of its capital structure in the following manners:

(a) Reduction of the authorised share capital, which involved the reduction of the nominal value of all shares reducing from HK$0.05 each to HK$0.01 each, resulted in the reduction of the authorised share capital of the Company from HK$200,000,000 divided into 4,000,000,000 shares to HK$40,000,000 divided into 4,000,000,000 new shares;

(b) Capital reduction, which involved the reduction of the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK$0.04 on each of the issued shares such that the nominal value of each issued share was reduced from HK$0.05 to HK$0.01. The credit of HK$98,383,000 arose from the capital reduction has been transferred to the contributed surplus account of the Company; and

(c) Increase in authorised share capital, which involved the increase of authorised share capital from HK$40,000,000 (divided into 4,000,000,000 new shares) to HK$200,000,000 (divided into 20,000,000,000 new shares) by the creation of 16,000,000,000 new shares.

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