THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Digital Licensing (Group) Limited (the "**Company**"), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

(1) MAJOR AND CONNECTED TRANSACTION ACQUISITION OF APPROXIMATELY 21.57% SHAREHOLDING INTEREST IN A COPYRIGHT MANAGEMENT AND DIGITAL LICENSING BUSINESS; (2) REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES; AND (3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

Financial Adviser to the Company

INCU

INCU Corporate Finance Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

VEDA | CAPITAL
智略資本

A letter from the independent committee (the "**Independent Board Committee**") of the board of directors of the Company is set out on pages 29 to 30 of this circular. A letter from Veda Capital Limited, the independent financial adviser of the Company, containing its advice to the Independent Board Committee and the Independent Shareholders for Acquisition and Independent Shareholders for New General Mandate is set out on pages 31 to 57 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Friday, 11 December 2009 at 11:00 a.m. is set out on pages 174 to 177 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular.

Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

This circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for seven days from the date of its publication and on the website of the Company at www.chinadigitallic.com.

23 November 2009

CHARACTERISTICS OF GEM

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 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.

CONTENTS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings when used herein:

"Acquisition"	the proposed acquisition of the Sale Shares on the terms contained in the Agreement
"AGM"	the annual general meeting of the Company held on 2 June 2009 in which the Shareholders had approved, among other matters, the Current General Mandate
"Agreement"	the conditional agreement dated 8 October 2009 (as supplemented by a supplemental agreement dated 15 October 2009) entered into among the Purchaser, the Vendor and the Guarantor in relation to the Acquisition
"Announcement"	the announcement of the Company dated 15 October 2009 in relation to the Acquisition
"associates"	has the same meaning ascribed to such term under the GEM Listing Rules
"Beijing e-License"	Beijing YiLaiShen Technology Company Limited (北京易來申科技有限公司)
"BLTC"	Beijing LianYiHuiZhong Technology Company Limited (北京聯易匯眾科技有限公司)
"Board"	the board of Directors
"Bondholder(s)"	holder(s) of the Convertible Bond(s)
"Business Day(s)"	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Code"	The Hong Kong Code on Takeovers and Mergers
"Company"	China Digital Licensing (Group) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Agreement
"connected persons"	has the meaning ascribed thereto in the GEM Listing Rules

"Consideration"	the consideration for the Acquisition, being HK$32,355,000
"Consideration Shares"	an aggregate of 58,000,000 Shares to be alloted and issued to the Vendor to satisfy in part the Consideration
"Conversion Price"	HK$0.094 per Conversion Share, subject to usual anti-dilution adjustments, being the initial conversion price at which the Convertible Bonds may be converted into the Conversion Shares
"Conversion Shares"	the 286,202,127 new Shares (subject to adjustment) to be allotted and issued to the Bondholder(s) upon conversion of the Convertible Bonds
"Convertible Bonds"	the convertible bond(s) in the agreed form in the principal amount of HK$26,903,000 to be issued by the Company in favour of the Vendor at Completion to satisfy in part the Consideration
"Current General Mandate"	the general mandate approved at the AGM to grant to the Directors to allot and issue Shares of up to 20% of the share capital of the Company in issue on the date of the passing of the relevant ordinary resolution, which was 2 June 2009
"Director(s)"	the director(s) of the Company from time to time
"Earn Out Profit"	earn out profit of at least HK$25 million being the average of the audited consolidated net profit after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 December 2009 and 31 December 2010
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, among other matters, (i) the Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares, issue of the Convertible Bonds and allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds); (ii) the refreshment of the New General Mandate and (iii) the proposed increase in authorised share capital of the Company
"Enlarged Group"	the Group as enlarged after the Acquisition
"Far Glory"	Far Glory Limited, a company incorporated in the British Virgin Islands

"Former Agreement"	the conditional agreement dated 14 August 2009 enter between the Purchaser as purchaser and Mr. Yuan Sheng Jun as vendor for the sale of 1,000 ordinary shares of Far Glory thereunder which has been completed on 28 September 2009
"Former Profit Guarantee"	the profit guarantee of at least HK$15 million being the average of the audited consolidated net profit after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 December 2009 and 31 December 2010 given by Mr. Hsu Tung Chi and guaranteed by Mr. Hsu Tung Sheng under the acquisition agreement entered into between among the Company, and Mr. Hsu Tung Chi and Mr. Hsu Tung Sheng dated 5 May 2008, details of which have been disclosed in the circular of the Company dated 30 May 2008
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, established to advise the Independent Shareholders for Acquisition in respect of the Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares, issue of the Convertible Bonds and allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds) and the Independent Shareholders for New General Mandate in relation to the New General Mandate as to the fairness and reasonableness of the New General Mandate respectively
"Independent Financial Adviser" or "Veda Capital"	Veda Capital Limited, a licensed corporation under the SFO to conduct type 6 regulated activity, appointed to advise the Independent Board Committee and the Independent Shareholders for Acquisition in respect of the Agreement and the transactions contemplated thereunder and the Independent Shareholders for New General Mandate in relation to the New General Mandate
"Independent Shareholders for Acquisition"	Shareholders other than Mr. Lau, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi and their respective associates or others who are interested in the Acquisition at the forthcoming EGM

"Independent Shareholders for New General Mandate"	Shareholders other than Mr. Hsu Tung Sheng, Mr. Pang Hong Tao, Ms. Au Shui Ming, Anna and Mr. Ma She Shing, Albert and their respective associates
"Issue Price"	approximately HK$0.094 per Consideration Share
"Latest Practicable Date"	18 November 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"New General Mandate"	the general mandate proposed to be granted to the Directors at the EGM to allot, issue and otherwise deal with additional Shares not exceeding 20% of the share capital of the Company in issue on the date of the passing of the relevant ordinary resolution
"PRC"	the People's Republic of China
"Purchaser"	Cheer Plan Limited, a wholly owned subsidiary of the Company
"Sale Shares"	2,351 ordinary shares of Far Glory, representing approximately 21.57% of the total issued share capital of Far Glory
"Shares"	ordinary shares of HK$0.05 each in the capital of the Company
"Shareholders"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Group"	Far Glory and its subsidiaries
"Transactions"	the aggregate of transactions under the Agreement and Former Agreement
"Vendor"	Daily Technology Company Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent

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

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

Executive Directors:
Mr. Hsu Tung Sheng
Mr. Pang Hong Tao
Ms. Au Shui Ming, Anna

Non-executive Director:
Mr. Ma She Shing, Albert

Independent non-executive Directors:
Mr. Hsu William Shiu Foo
Mr. Lee Kun Hung
Mr. Kwok Chi Sun, Vincent

Registered office:
Caledonian Bank & Trust Limited
Caledonian House
P.O. Box 1043, George Town
Grand Cayman, Cayman Islands

Head office and principal place of business in Hong Kong:
Unit 1601, Ruttonjee House
Ruttonjee Centre
11 Duddell Street
Central, Hong Kong

23 November 2009

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION ACQUISITION OF APPROXIMATELY 21.57% SHAREHOLDING INTEREST IN A COPYRIGHT MANAGEMENT AND DIGITAL LICENSING BUSINESS; (2) REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES; AND (3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

Reference is made to the Announcement, in which the Board announced that on 8 October 2009, the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement (as supplemental agreement dated 15 October 2009) among the Vendor and the Guarantor pursuant to which the Purchaser agreed to purchase and the Vendor agreed to sell, the Sale Shares, represent approximately 21.57% of the total issued share capital of Far Glory as at the date of the Agreement, for a total consideration of HK$32,355,000.

Reference is also made to the announcements of the Company dated 6 May 2008 and 18 August 2009 and the circulars of the Company dated 30 May 2008 and 7 September 2009 respectively in relation to, among other matters, the investment made by the Purchaser in Far Glory. As at the Latest Practicable Date, the Purchaser is interested in approximately 29.43% shareholding in Far Glory.

As disclosed in the announcement and circular of the Company dated 6 May 2008 and 30 May 2008 respectively, the Purchaser has entered into agreement with the Guarantor in relation to the acquisition of 12% equity interest in Far Glory at a maximum consideration of HK$45,000,000 (subject to adjustment), the acquisition was completed on 20 June 2008 and the consideration was settled by the Company in the following manner: (i) cash of HK$5,000,000, (ii) convertible bonds of HK$22,000,000, of which HK$4,000,000 was held under escrow and will be released upon fulfillment of the Former Profit Guarantee; and (iii) earn out convertible bonds of HK$18,000,000, which will be issued upon fulfillment of the Earn Out Profit. As at the Latest Practicable Date, convertible bonds of HK$12,000,000 remain outstanding, of which HK$4,000,000 was held under escrow and will be released upon fulfillment of the Former Profit Guarantee and earn out convertible bonds have not yet been issued to the Guarantor.

The purpose of this circular is to provide you with, among other matters, (i) further details regarding the Acquisition and the transactions contemplated thereunder; the proposed grant of New General Mandate and the proposed increase in authorised share capital of the Company; (ii) the accountants' report of Target Group; (iii) a letter from the Independent Board Committee containing its advice and recommendation in respect of the Agreement and the transactions contemplated thereunder and the proposed grant of the New General Mandate; (iv) a letter from Veda Capital to the Independent Board Committee, Independent Shareholders for Acquisition in respect to the Agreement and the transactions contemplated thereunder and Independent Shareholders for New General Mandate in respect of the proposed grant of the New General Mandate; and (v) a notice convening the EGM, in compliance with the GEM Listing Rules.

THE AGREEMENT

Date: 8 October 2009 (after trading hours) (as supplemented by a supplemental agreement dated 15 October 2009)

Parties:

Purchaser: the Purchaser, a wholly owned subsidiary of the Company

Vendor: Daily Technology Company Limited

Guarantor: Mr. Hsu Tung Chi

Daily Technology Company Limited is a company incorporated in Samoa and is beneficially owned as to 98% by Mr. Hsu Tung Chi and 2% by a third party independent of the Company and its connected persons (as defined in the GEM Listing Rules). Mr. Hsu Tung Chi, being the younger brother of Mr. Hsu Tung Sheng, an executive Director, is a connected person of the Company and therefore the Acquisition constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules.

Assets to be acquired

The Sale Shares, representing approximately 21.57% of the total issued share capital of Far Glory.

Far Glory, which is owned as to 29.43%, 28.37%, 1.50% and 19.91% by the Purchaser, the Vendor, Mr. Hsu Tung Sheng and Mr. Lau Kim Hung, Jack ("**Mr. Lau**") respectively and the balance of 20.79% by two parties who are all third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules).

Mr. Lau is a substantial Shareholder. Mr. Hsu Tung Sheng is an executive Director and Mr. Hsu Tung Chi, the substantial shareholder of the Vendor, is the younger brother of Mr. Hsu Tung Sheng. Mr. Lau, the Vendor and Mr. Hsu Tung Sheng are interested in 19.91%, 28.37% and 1.50% shareholdings of Far Glory respectively. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for aforesaid, the two other shareholders of Far Glory and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules).

Consideration

The Consideration for the Sale Shares is HK$32,355,000, which shall be payable in the following manner:

(a) as to HK$5,452,000 payable by the Purchaser procuring the Company to allot and issue the Consideration Shares at the Issue Price upon Completion; and

(b) as to HK$26,903,000 payable by the Purchaser procuring the Company to issue the Convertible Bonds upon Completion.

The Consideration was agreed between the Vendor and the Purchaser after arm's length negotiations after considering: (i) the basis of consideration under the Former Agreement, after discussion with the Vendor and the management of the Target Group, the management of the Target Group is of the view that the business of the Target Group will develop according to its business plan and the development progress of the Target Group follows the initial business development plan as previous discussion with Mr. Yuan Sheng Jun in determining the basis of consideration of the Former Agreement, as a result, the Vendor and the Purchaser agreed to use the same basis of consideration under the Former Agreement, such as (a) Former Profit Guarantee; (b) price earning ratios; and (c) Issue Price, etc.; (ii) the business development and prospect of the Target Group in the medium to long term; and (iii) the current price earning multiples of companies listed on the Stock Exchange engaging in information technology business and entertainment related business similar to the Target Group ("**Comparables**") ranging from about 0.21 to about 257.50 times.

The Consideration represents 10 price earning multiples (which is the lower range compared to the price earning multiples of the Comparables) of the Former Profit Guarantee and equity interest to be acquired in Far Glory (i.e. HK$15,000,000 x 10 x 21.57% = HK$32,355,000). The 10 price earning multiples is in the low-end of such range and represents that the business of the Target Group is in developing stage as compared to the Comparables.

The Directors (excluding the independent non-executive Directors who would give their views on the terms of the Acquisition after having been advised by the independent financial adviser) consider that the Consideration is fair and reasonable and the terms and conditions of the Acquisition are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

(a) all necessary consents and approvals required to be obtained on the part of the Vendor in respect of the Acquisition having been obtained;

(b) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the Acquisition having been obtained;

(c) the warranties provided by the Vendor under the Agreement remaining true and accurate in all respects;

(d) the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares; and

(e) the passing by the Independent Shareholders for Acquisition who are entitled to vote and not required to abstain from voting under the GEM Listing Rules at the EGM to be convened and held of an ordinary resolution to approve the Agreement and the transaction contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares, issue of the Convertible Bonds and allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds to the Vendor (or its nominee).

Condition (c) above is waivable by the Purchaser under the Agreement. The Purchaser has no current intention to waive such condition as at the Latest Practicable Date. Save for condition (c), the other conditions are incapable of being waived.

Completion

Completion shall take place at 4:00 p.m. within three Business Days after all the conditions of the Agreement have been fulfilled or waived or such later date as may be agreed between the Vendor and the Purchaser.

As at the Latest Practicable Date, the Purchaser is beneficially interested in approximately 29.43% of the total issued share capital of Far Glory.

Upon Completion, the Company shall allot and issue to the Vendor the Consideration Shares and upon which the Company will be indirectly interested in 51% equity interests in Far Glory and that Far Glory will become a subsidiary of the Company with the accounts of the Target Group being consolidated with that of the Group.

Upon the allotment and issue of the Consideration Shares and the Conversion Shares, there will not be any change in control of the Company.

Long-stop date

If all of the conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before 31 December 2009 (or such later date as the Purchaser and the Vendor may agree), the Agreement shall cease and terminate and neither party shall have any obligations towards each other.

CONSIDERATION SHARES

The 58,000,000 new Consideration Shares will be allotted and issued at an Issue Price of approximately HK$0.094 per Consideration Share, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Issue Price represents:

(i) a discount of approximately 27.69% to the closing price of HK$0.13 per Share as quoted on the Stock Exchange on 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement;

(ii) a discount of approximately 27.69% to the average of the closing prices of HK$0.13 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement; and

(iii) a discount of approximately 50.26% to the closing price of HK$0.189 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represent approximately 3.68% of the existing issued share capital of the Company and approximately 3.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Vendor undertakes to and covenants with the Purchaser that it will not, within the period commencing on the date of Completion and ending on the date falling 90 days after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of more than 29,000,000 Consideration Shares or any interests therein or grant any options or rights in respect of more than 29,000,000 Consideration Shares without prior approval from the Purchaser.

The Issue Price was determined by the Board after taking into consideration of various factors including, the current level of the Share price, the issue price of the consideration shares of the Former Agreement as the management of the Target Group is of the view that the current business development progress of the Target Group follows the initial business development plan as when the Former Agreement was reached and the Directors (excluding the independent non-executive Directors) consider that the Issue Price is fair and reasonable.

The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought at the EGM and will be allotted and issued on the date of Completion.

Application for listing

Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

THE CONVERTIBLE BONDS

To satisfy part of the Consideration, the Company will issue to the Vendor (or its nominees) the Convertible Bonds in the principal amount of HK$26,903,000.

The following is a summary of the principal terms of the Convertible Bonds:

Aggregate principal amount:	HK$26,903,000
Conversion Price:	HK$0.094 per Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues. Such adjustments will be certified by an independent approved merchant bank or the auditors of the Company for the then time being.

The Conversion Price of HK$0.094 per Conversion Share represents:

(i) a discount of approximately 27.69% to the closing price of HK$0.13 per Share as quoted on the Stock Exchange on 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement;

(ii) a discount of approximately 27.69% to the average of the closing prices of HK$0.13 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement;

(iii) a discount of approximately 27.86% to the average of the closing prices of HK$0.1303 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement;

(iv) a premium of approximately 2.76 times over the net asset value per Share of approximately HK$0.025 based on the audited consolidated financial statements of the Group as at 31 December 2008 and the total number of issued shares of the Company of 1,575,604,867 as at the date of the Announcement; and

(v) a discount of approximately 50.26% to the closing price of HK$0.189 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Conversion Price was determined after arm's length negotiations among the Purchaser, the Vendor and the Company with reference to the Issue Price.

Interest rate: Zero coupon.

Maturity Date: The fifth anniversary from the date of issue of the Convertible Bonds.

Redemption: Unless previously converted or lapsed or redeemed by the Company, the Company will redeem the Convertible Bonds on the Maturity Date.

The Company may at any time before the Maturity Date by serving at least seven days' prior written notice on the Bondholder(s) with the total amount proposed to be redeemed from the Bondholder(s) specified therein, redeem the Convertible Bonds (in whole or in part) at par.

Any amount of the Bond(s) which remains outstanding on the Maturity Date shall be redeemed at its then outstanding principal amount.

Transferability: The Bondholder(s) may assign or transfer the Convertible Bonds to Independent Third Parties in whole or in part in integral multiples of HK$1,000,000 or if the outstanding principal amount of the Convertible Bonds is less than HK$1,000,000, the whole but not in part of the Convertible Bonds may be assigned or transferred.

Conversion:	Under the terms of the Convertible Bonds, the aggregate shareholdings of the Vendor and its concert parties upon any conversion of the Convertible Bonds or any other previous convertible securities must not exceed 29.99% or more of the issued share capital of the Company on the date of the conversion and that any conversion will not trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor. The Vendor shall by notice inform the Company and request to convert the Convertible Bonds and the Company will not issue the Conversion Shares to the Vendor if the aggregate shareholding of the Vendor and its concert parties upon any conversion of the Convertible Bonds or any other previous convertible securities exceeds 29.99% or more of the issued share capital of the Company. Subject to above, the Vendor will have the right to convert the whole or part of the principal amount of the Convertible Bonds into Shares at any time and from time to time, from the date of issue of the Convertible Bonds in amounts of not less than a whole multiple of HK$1,000,000 on each conversion.
Conversion period:	Bondholder(s) shall have the right to convert, up to and including the Maturity Date as defined above, the whole or any part (in an amount or integral multiple of HK$1,000,000) of the principal amount of the Convertible Bonds into Conversion Shares.
Conversion Shares:	Upon full conversion of the Convertible Bonds at the Conversion Price, an aggregate of 286,202,127 Conversion Shares will be issued by the Company (representing approximately 18.16% of the existing issued share capital of the Company, approximately 17.52% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and approximately 14.91% of the issued share capital of the Company as enlarged by the allotment and issue of both the Consideration Shares and the Conversion Shares, assuming full conversion of the Convertible Bonds and the Conversion Shares were to be

	issued at the Conversion Price. However, under the terms of the Convertible Bonds, the aggregate shareholdings of the Vendor and its concert parties on any conversion of the Convertible Bonds must not exceed 29.99% or more of the issued share capital of the Company on the date of the conversion and that any conversion will not trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor.
Voting:	A Bondholder will not be entitled to receive notice of, attend or vote, at any general meeting of the Company by reason only of it being a Bondholder.
Listing:	No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.
Ranking:	The Convertible Bonds will rank pari passu with all other present and future unsecured and un-subordinated obligations of the Company.

The Conversion Shares to be issued as a result of the exercise of the conversion rights attaching to the Convertible Bonds will rank pari passu in all respects with all other Shares in issue at the date on which the conversion rights attached to the Convertible Bonds are exercised. The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the EGM and will be allotted and issued upon exercise by the Vendor.

An application will be made by the Company for the listing of and permission to deal in the Conversion Shares to be issued. The Company shall inform the Stock Exchange in the event that there is any dealing in the Convertible Bonds by any connected person of the Company.

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date and before Completion; (ii) immediately after Completion and the allotment and issue of the Consideration Shares; (iii) immediately after Completion and the allotment and issue of the Consideration Shares and upon conversion of the Convertible Bonds immediately before triggering a mandatory general offer obligation under the present provisions of the Code; and (iv) immediately after Completion and the allotment and issue of the Consideration Shares, and full conversion of the Convertible Bonds and full conversion of HK$12 million convertible bonds at conversion price of HK$0.18 per Share and full conversion of HK$18 million earn out convertible bonds at conversion price of HK$0.18 per Share:

	As at the Latest Practicable Date and before Completion		**Immediately after Completion and the allotment and issue of the Consideration Shares**		**Immediately after Completion and the allotment and issue of the Consideration Shares and upon conversion of the Convertible Bonds immediately before triggering a mandatory general offer obligation under the present provisions of the Code** *(Note 4)*		**Immediately after Completion and the allotment and issue of the Consideration Shares, full conversion of the Convertible Bonds and full conversion of conversion of HK$12 million convertible bond at conversion price of HK$0.18 per Share and full conversion of HK$18 million earn out convertible bonds at conversion price of HK$0.18 per Share** *(Note 5)*	
Shareholders	*Number of Shares*	*Appro. %*	*Number of Shares*	*Appro. %*	*Number of Shares*	*Appro. %*	*Number of Shares*	*Appro. %*
Manciple Enterprises Limited and its associates *(Note 1)*	405,198,238	21.66%	405,198,238	21.01%	405,198,238	19.69%	405,198,238	17.01%
The Vendor and its associate *(Note 2)*	25,000,000	1.34%	83,000,000	4.30%	211,900,000	10.30%	535,868,793	22.50%
Directors *(Note 3)*								
Pang Hong Tao	29,800,000	1.59%	29,800,000	1.54%	29,800,000	1.45%	29,800,000	1.25%
Ma She Shing, Albert	9,870,000	0.52%	9,870,000	0.51%	9,870,000	0.48%	9,870,000	0.41%
Au Shui Ming Anna	41,500,000	2.22%	41,500,000	2.15%	41,500,000	2.02%	41,500,000	1.74%
Subtotal	81,170,000	4.33%	81,170,000	4.20%	81,170,000	3.95%	81,170,000	3.40%
Public	1,359,636,629	72.67%	1,359,636,629	70.49%	1,359,636,629	66.06%	1,359,636,629	57.09%
Total:	1,871,004,867	100.00%	1,929,004,867	100.00%	2,057,904,867	100.00%	2,381,873,660	100.00%

Notes:

1. Manciple Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau.

2. Mr. Hsu Tung Sheng, an executive Director, being the elder brother of Mr. Hsu Tung Chi, is interested in 13,000,000 Shares.

3. Mr. Pang Hong Tao and Ms. Au Shui Ming, Anna are executive Directors. Mr. Ma She Shing, Albert is a non-executive Director.

4. The shareholding structure is prepared for illustration purpose only and assuming (i) after allotment and issue of the Consideration Shares; and (ii) after conversion of the Convertible Bonds, with the aggregate shareholdings of the Vendor and its concert parties upon issue of the Conversion Shares does not exceed 29.99% or more of the issued share capital of the Company on the date of the Conversion nor will it trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor.

5. The shareholding structure is prepared for illustration purpose only, yet, the Company will not issue the Conversion Shares to the Vendor if the aggregate shareholding of the Vendor and its concert parties upon any conversion of the Convertible Bonds exceeds 29.99% or more of the issue share capital of the Company.

INFORMATION ON THE TARGET GROUP

The Target Group are currently engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as online entertainment and media related items) through Beijing e-License and distribution of other entertainment related business in the PRC through BLTC. BLTC is 100% owned by the Target Group and Beijing e-License is 50% beneficially owned by the Target Group and the rest of the shareholding interest is indirectly owned by e-License Inc. (Japan). e-License Inc. (Japan) is a pioneer in the development of copyright management and digital licensing technologies in Japan and is one of the leading Japan based copyright management companies specialized in the digital media industry to provide international copyright management solution and consultancy services.

According to the audited financial statements of the Target Group for the period commencing from 8 June 2007 (the date of incorporation) to 31 December 2007, there was no turnover, and the net loss before and after taxation and extraordinary items was HK$57,263. As at 31 December 2008, the total assets and net liability value of the Target Group were HK$6,134,703 and HK$44,517 respectively.

According to the audited financial statements of the Target Group for the year ended 31 December 2008, there was no turnover, and the net loss before and after taxation and extraordinary items was HK$1,219,144. As at 31 December 2008, the total assets and net asset value of the Target Group were HK$25,318,018 and HK$25,271,475 respectively.

According to the audited financial statements of the Target Group for the six months ended 30 June 2009, there was no turnover, and the net loss before and after taxation and extraordinary items was HK$217,129. As at 30 June 2009, the total assets and net asset value of the Target Group were HK$25,136,951 and HK$25,054,347 respectively.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the development and provision of on-line education programs, provide languages and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau. The Group also invests in copyright management and digital licensing business through investment in Far Glory.

With the increasing emphasis on anti-privacy placed by the PRC Government, the growing popularity of Internet and mobile for entertainment purpose and the introduction of 3G in the PRC, the Directors are of the view that the provision of legal and copyright protected items in particular, the on-line entertainment and media related items, are in high demand in telecommunication industry, music and entertainment industry as well as media industry in the PRC and the development of digital licensing business in the areas of Internet and telecommunications are of high profitability potential in the PRC.

Although the business development of the Target Group has been delayed in 2008 as the negotiations with the telecommunication operators have taken longer time than expected due to restructuring of the telecommunication industry and the resulted changes in personnel in 2008 and the negotiations with other potential business partners have also been delayed mainly due to the global financial tsunami in the second half of 2008 and their respective business plans have been hold back due to negative changes in the global business environment, there has been some major business development and updates since its incorporation to the Latest Practicable Date, including:

(i) the Target Group has entered into an agreement with a PRC Government authority which is the sole governmental authority in the PRC responsible for management of the copyrights of audio and video items in the PRC, in April 2009 in relation to the co-operation in the area of provision of copyright management solution, the digital content licensing solution and the distribution of copyright protected items (such as online entertainment and media related items) services;

(ii) the Target Group has entered into an agreement with one of the telecommunication operators in the PRC for the distribution of copyright protected music and music video contents to its 3G mobile subscribers; such service has become effective and has commenced operation in September 2009; in addition, the Target Group is in active negotiation with other telecommunication operators in the PRC for the distribution of copyright protected contents to its mobile subscribers;

(iii) the Target Group has entered into agreements with one of the leading global music companies in July 2009 for the provision of copyright protected music and music video contents to the two telecommunication operators in the PRC; apart from this, it is also in final negotiation with the music company for the provision of copyright management solution service;

(iv) the Target Group has entered into agreements with several top music companies from March to May 2008 for the provision of copyright protected music and music video contents to Internet and mobile users; and

(v) apart from the above, the Target Group is in negotiation with other major content providers for the provision of copyright management solution service as well as copyright protected contents, including music, drama series, online games, animation and comic contents to Internet and mobile users in the PRC and in the medium to long term, to other digital medium.

In view of the above, the management of the Target Group is optimistic that the Former Profit Guarantee will be achievable.

In light of (i) the above business development of the Target Group, and (ii) the technological support given by e-License Inc. (Japan) to the Target Group on the development of the copyright management and digital content licensing businesses in the PRC, given its expertise in the development of the copyright management and digital licensing technologies in Japan, the Directors believe that the Target Group is well positioned to become the pioneer in the provision of legal copyright protected on-line entertainment and media related items and the related copyright management and digital content licensing solutions in the PRC which will generate significant revenue and profit to the Group in the future. The Directors consider it is the right time to acquire further equity interest in Far Glory in order to consolidate the accounts of the Target Group with that of the Group.

The Directors (excluding the independent non-executive Directors who would give their views on the terms of the Acquisition after having been advised by the independent financial adviser) view that further investment into the Target Group is in the interest of the Group and the Shareholders as a whole in view of its profitability potential in the future.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE TARGET GROUP

Set out is a summary of the key financial data of the Target Group, of which 51% of the shareholding interest will be held by the Purchaser upon Completion and are extracted from the accountant's report of the Target Group as contained in Appendix I to this circular prepared based on the generally accepted accounting principles in Hong Kong.

	Six months ended 30 June 2009 (audited) *HK$*	**For the year ended 31 December 2008 (audited)** *HK$*	**Period from 8 June 2007 (date of incorporation) to 31 December 2007 (audited)** *HK$*
Result			
Turnover	–	–	–
Loss before Tax	(217,129)	(1,219,144)	(57,263)
Loss after Tax	(217,129)	(1,219,144)	(57,263)
	As at 30 June 2009 (audited) *HK$*	**As at 31 December 2008 (audited)** *HK$*	**As at 31 December 2007 (audited)** *HK$*
Assets and liabilities			
Total assets	25,136,951	25,318,018	6,134,703
Net asset/(liability) value	25,054,347	25,271,475	(44,517)

(i) Financial and business performance

Far Glory was incorporated on 8 June 2007. There were no turnover for the period ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2009 respectively as the operation was not commenced. The operation of the Target Group has commenced in the September 2009.

(ii) Capital structure

Far Glory Group's capital structure as at 31 December 2007, 31 December 2008 and 30 June 2009 consisted of approximately HK$800, HK$87,200 and HK$87,200 as registered capital and negative reserve of approximately HK$45,317 as at 31 December 2007 and reserve of approximately HK$25,184,275 and HK$24,967,147 as at 31 December 2008 and 30 June 2009 respectively.

(iii) Liquidity and financial resources

As at 31 December 2007, 31 December 2008 and 30 June 2009, there was cash and bank balance of approximately HK$2,004,711, HK$16,498,387 and HK$13,937,900.

(iv) Significant investments

The Target Group did not have any significant investments as at 31 December 2007, 31 December 2008 and 30 June 2009 respectively.

(v) Material acquisition or disposal of subsidiaries and affiliated companies

There were no material acquisitions or disposal of subsidiaries and affiliated company as at 31 December 2007, 31 December 2008 and 30 June 2009 respectively.

(vi) Business of the Target Group

The Target Group is principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

(vii) Segment information

The Target Group has not commenced operation for the period ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2009 respectively, accordingly, no analysis by either business or geographical segment was noted.

(viii) Number of employees and remuneration policies

As at 31 December 2007, the Target Group did not have any employee, as at 31 December 2008 and 30 June 2009, the Target Group had about 5 and 8 employees respectively. Total salary and allowances amounted to about HK$234,247 and HK$213,862 for the year ended 31 December 2008 and for the six months ended 30 June 2009 respectively. The Target Group's remuneration policy includes a pension scheme.

(ix) Charges on the Target Group's assets

There was no charge on the Target Group's assets as at 31 December 2007, 31 December 2008 and 30 June 2009 respectively.

(x) Future plans for material investments

As at the Latest Practicable Date, there were no proposed material investments by the Target Group.

(xi) Exposure to exchange rates

Most of the transactions of the Target Group will denominate in Renminbi and most of the bank deposits are being kept in the local currency of the Target Group to minimize exposure to foreign exchange risk. Hence, no hedging or other arrangements to reduce the currency risk were implemented.

(xii) Contingent liabilities

There were no contingent liabilities of the Target Group as at 31 December 2007, 31 December 2008 and 30 June 2009 respectively.

(xiii) Gearing

There were no bank borrowing as at 31 December 2007, 31 December 2008 and 30 June 2009 respectively.

FINANCIAL EFFECT OF THE PROPOSED ACQUISITION

(1) Assets

After the Completion, the unaudited pro forma net assets value of the Enlarged Group is about HK$81,754,000. As stated in the paragraph "Consideration" above, a Convertible Bond in the principal amount of HK$26,903,000 will be issued upon Completion, which entitling the Bondholders the conversion right of 286,202,127 Convertible Shares at the Conversion Price. As a result of the conversion of the Convertible Bond the issued share capital will be enlarged and net asset value of the Company will be increased.

(2) Earnings

The Acquisition is expected to provide an additional and stable income source to the Group in the medium term and the accounts of the Target Group will be consolidated with that of the Group and the Enlarged Group looks forward to the business opportunities to be arisen from the copyright management solution and digital licensing business in the PRC.

(3) Liabilities

The liabilities of the Enlarged Group upon Completion will be increased by approximately HK$21 million, which represents the Convertible Bonds due to the Vendor.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in the development and provision of on-line education programs, provide languages and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau. The Group also invests in copyright management and digital licensing business through investment in Far Glory.

Investment in copyright management and digital licensing business

In an effort to further develop the information technology business of the Group in the PRC, on 14 April 2008, the Purchaser, a wholly owned subsidiary of the Company, as subscriber, entered into a subscription agreement with Far Glory, pursuant to the subscription agreement, Cheer Plan shall subscribe and Far Glory shall allot and issue, the 900 shares of Far Glory Limited (representing approximately 8.26% of the entire issued share capital of Far Glory as enlarged by the allotment and issue of the 900 new shares) at a total consideration of HK$20,250,000, the Purchaser has paid HK$5,000,000 to Far Glory as part of the consideration, and the remaining consideration of HK$15,250,000 shall be settled at the request of Far Glory. The subscription was completed on 21 April 2008.

On 5 May 2008, the Purchaser entered into an agreement with Mr. Hsu Tung chi and Mr. Hsu Tung Sheng, pursuant to the agreement, the Purchaser shall purchase and Mr. Hsu Tung chi shall sell, the 2,508 shares of Far Glory (representing approximately 12% of the entire issued share capital of Far Glory Limited) at a maximum total consideration of HK$45,000,000. The acquisition was completed on 20 June 2009.

On 14 August 2009. The Purchaser entered into an agreement with Mr. Yuan Sheng Jun, Pursuant to which, the Purchaser agreed to purchase and Mr. Yuan Sheng Jun agreed to sell 1,000 ordinary share of Far Glory at a total consideration of HK$13,755,000 by issuing of 146,329,787 Shares. The acquisition was completed on 28 September 2009.

On 8 October 2009, the Purchaser entered into the Agreement (as supplemental agreement dated 15 October 2009) with the Vendor and the Guarantor, pursuant to the Agreement, the Purchaser agreed to purchase and the Vendor agreed to sell, the Sale Sales (representing approximately 21.57% of the entire issued share capital of Far Glory Limited) at a maximum total consideration of HK$32,355,000.

The Target Group is principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

With the increasing emphasis on anti-privacy placed by the PRC Government, the growing popularity of Internet and mobile for entertainment purpose and the introduction of 3G in the PRC, the Directors are of the view that the provision of legal and copyright protected items in particular, the on-line entertainment and media related items, are in high demand in telecommunication industry, music and entertainment industry as well as media industry in the PRC and the development of digital licensing business in the areas of Internet and telecommunications are of high profitability potential in the PRC.

Telecommunication sector

A tripartite agreement was reached among China Audio and Video Copyright Association ("CAVCA"), a major telecommunication operator in the PRC and the Group for the provision of digital copyright management solution and the distribution of copyright protected music contents in the mobile 3G network on an exclusive basis. Such agreement is expected to be executed by the end of this year.

The Group is in final negotiation stage on a tripartite agreement similar to the aforesaid with CAVCA and another major telecommunication operator in the PRC.

The Group has completed negotiation with a major telecommunication operator in the PRC on the development of copyright protected Japanese music contents platform on the mobile 3G network and the provision of copyright protected entertainment contents to the multi-media broadcasting channels of such telecommunication operator. The provision of such service is expected to commence next quarter.

The Internet sector

Through the partnership with CAVCA, the Group has, in principle, reached agreement with the largest music on-line portal in the PRC for the provision of digital copyright management solution in the Internet. Meanwhile, the Group is close to finalise the negotiations with the other major music industry players for provision of the same arrangement.

Through the partnerships and strategic co-operations mentioned above, the Board is optimistic that the Group will achieve significant breakthrough on the financial performance in the coming fiscal year and at the same time create a new era for the digital copyright management industry in the PRC.

In light of (i) the above business development of the Target Group, and (ii) the technological support given by e-License Inc. (Japan) to the Target Group on the development of the copyright management and digital content licensing businesses in the PRC, given its expertise in the development of the copyright management and digital licensing technologies in Japan, the Directors believe that the Target Group is well positioned to become the pioneer in the provision of legal copyright protected on-line entertainment and media related items and the related copyright management and digital content licensing solutions in the PRC which will generate significant revenue and profit to the Group in the future. The Directors consider it is the right time to acquire further equity interest in Far Glory in order to consolidate the accounts of the Target Group with that of the Group.

The Directors (excluding the independent non-executive Directors who would give their views on the terms of the Acquisition after having been advised by the independent financial adviser) view that further investment into the Target Group is in the interest of the Group and the Shareholders as a whole in view of its profitability potential in the future.

E-Learning Business

The Group served over 400 primary and secondary schools in Hong Kong with our interactive English, Chinese and Mathematics learning platforms, which represents approximately 40% penetration rate. The Group is also working with many schools in Hong Kong to develop curriculum-based e-learning resources and transform the traditional classrooms into digital classrooms.

In addition, the Group successfully launched the Group's interactive English learning platform to over 60,000 primary and secondary school students in Macao. This e-learning project has been commissioned by the Macao Education & Youth Affairs Bureau. The Group has also been commissioned to collaborate with Macau Inter-University Institute to provide the first ever online Portuguese learning platform to all the primary and secondary school students in Macao.

The Group will replicate its success in Hong Kong and Macao into China and other regions in Asia.

CURRENT GENERAL MANDATE

At the AGM, Shareholders approved, among other things, an ordinary resolution to grant to the Directors the Current General Mandate to allot and issue not more than 273,015,016 Shares, being 20% of the aggregate nominal amount of the issued share capital of the Company of 1,365,075,080 Shares as at the date of passing of the resolution.

During the period from the grant of the Current General Mandate to the Latest Practicable Date, the Current General Mandate had been utilised as to 273,000,000 Shares upon the placing of 273,000,000 Shares by the Company, being approximately 99.99% of the aggregate number of Shares which may be allotted and issued under the Current General Mandate. Please refer to the Company's announcements dated 8 September 2009 and 30 September 2009 for further details regarding the above matter.

PROPOSED GRANT OF NEW GENERAL MANDATE

At the EGM, ordinary resolutions will be proposed to the Independent Shareholders for New General Mandate that:

(i) the Directors be granted the New General Mandate to allot and issue Shares not exceeding 20% of the share capital of the Company in issue as at the date of passing the relevant ordinary resolution; and

(ii) the New General Mandate be extended to Shares repurchased by the Company pursuant to the repurchase mandate granted to the Directors at the AGM.

The Company has not refreshed the Current General Mandate since the AGM.

As at the Latest Practicable Date, the Company had an aggregate of 1,871,004,867 Shares in issue. Subject to the passing of the ordinary resolutions for the approval of the New General Mandate and on the basis that no further Shares are alloted and issued and/or repurchased by the Company between the Latest Practicable Date and the date of the EGM, the Company would be allowed under the New General Mandate to allot and issue up to 374,200,973 Shares, being 20% of the total number of Shares in issue as at the Latest Practicable Date.

REASONS FOR THE NEW GENERAL MANDATE

As explained in the paragraph headed "Current General Mandate" above, the Current General Mandate had been utilised as to 273,000,000 Shares, being approximately 99.99% of the aggregate number of Shares which may be allotted and issued under the Current General Mandate.

The Board believes that grant of the New General Mandate is in the best interests of the Company and the Shareholders as a whole by maintaining the financial flexibility necessary for the Group's future business development. The Board considers equity financing to be an important avenue of resources to the Group since it does not create any interest paying obligations on the Group. In appropriate circumstances, the Group will also consider other financing methods such as debt financing or internal cash resources to fund its future business development. While the Board considers that there is no immediate funding need for the Group's current operations and that there is currently no concrete proposal presented by potential investors for investment in the Shares, the Board is now proposing to seek the approval of Independent Shareholders for New General Mandate at the EGM of the New General Mandate such that should future funding needs arise or attractive terms for investment in the Shares become available from potential investors, the Board will be able to respond to the market and such investment opportunities promptly because fund raising exercise pursuant to a general mandate provides the Company a more simple and less lead time process than other types of fund raising exercises and to avoid the uncertainties in such circumstances that specific mandate may not be obtained in a timely manner.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$100,000,000 divided into 2,000,000,000 Shares, of which 1,871,004,867 Shares are in issue and fully paid. Taking into account the Acquisition, of which the Company will allot and issue 58,000,000 Consideration Shares and the Convertible Bonds in the principal amount of HK$26,903,000, (of which if converted in full, 286,202,127 new Shares will be alloted and issued) upon Completion. In order to accommodate future expansion and growth of the Group, the Board proposes to increase the existing authorised share capital of the Company to HK$200,000,000 divided into 4,000,000,000 Shares by the creation of an additional 2,000,000,000 unissued Shares of HK$0.05 each. As at the Latest Practicable Date, save as the Consideration Shares and Conversion Shares to be allotted and issued, there are no plans for the Directors to issue Shares out of the additional 2,000,000,000 unissued Shares to be created.

The proposed increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM. No Shareholder is required to abstain from voting on such resolution.

GEM LISTING RULES IMPLICATIONS

The Transactions (the aggregate of transactions under the Agreement and the Former Agreement) constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. Since Mr. Hsu Tung Chi, being the substantial shareholder of the Vendor is the younger brother of Mr. Hsu Tung Sheng, an executive Director, the Acquisition therefore also constitutes a connected transaction on the part of the Company and is subject to the reporting, announcement and the approval requirements of Independent Shareholders for Acquisition by way of poll under Chapter 20 of the GEM Listing Rules.

Mr. Lau, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi and their respective associates, are in aggregate interested in 430,198,238 Shares representing approximately 23.00% of the total issued Shares of 1,871,004,867 Shares as at the Latest Practicable Date and are required to abstain from voting in respect of the Agreement and the transactions contemplated thereunder at the forthcoming EGM. Save as disclosed, no other Shareholders have material interest in the Agreement and the transactions contemplated thereunder and are required to abstain from voting in respect of the approval of the Agreement and the transactions contemplated thereunder at the forthcoming EGM.

For the proposed grant of the New General Mandate, pursuant to the GEM Listing Rules, any controlling shareholders and their associates, or where there are no controlling shareholder, directors (excluding independent non-executive directors) and the chief executive and their respective associates shall abstain from voting in favour of the resolution approving the proposed grant of the New General Mandate. Since the Company has no controlling Shareholders, accordingly, Mr. Pang Hong Tao, Mr. Hsu Tung Sheng and Ms. Au Shui Ming, Anna, being the executive Directors and Mr. Ma She Shing, Albert, being the non-executive Director will abstain from voting in favour of the resolution approving the proposed grant of the New Mandate.

As at the Latest Practicable Date, Mr. Pang Hong Tao, Mr. Hsu Tung Sheng and his associates, Ms. Au Shui Ming, Anna and Mr. Ma She Shing, Albert, are interested in 29,800,000 Shares, 25,000,000 Shares, 41,500,000 Shares and 9,870,000 Shares respectively. The Board was advised by Mr. Pang Hong Tao, Mr. Hsu Tung Sheng and his associates, Ms. Au Shui Ming, Anna and Mr. Ma She Shing, Albert that they have no intention to vote against the relevant resolutions. Further, pursuant to the GEM Listing Rules, any vote of the Independent Shareholders for New General Mandate at the EGM will be taken by poll for resolutions in relation to the proposed grant of the New General Mandate.

The proposed increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM. No Shareholder is required to abstain from voting on such resolution.

EGM

Set out on pages 174 to 177 is a notice convening the EGM to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Friday, 11 December 2009 at 11:00 a.m. at which an ordinary resolutions will be proposed to the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares, the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the convertible Bonds and the proposed grant of the New General Mandate and the proposed increase in authorised share capital.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy of the EGM is enclosed with this circular. Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the same to the Company's Hong Kong branch share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at EGM or any adjournment thereof if you so wish.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises Mr. Hsu William Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent all being the independent non-executive Directors, has been established to advise the Independent Shareholders for Acquisition in respect of the Agreement and the transactions contemplated thereunder and the Independent Shareholder for New General Mandate in respect of the proposed grant of the New General Mandate respectively.

Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders for Acquisition in respect of the Acquisition and the transactions contemplated thereunder and the Independent Shareholder for New General Mandate in respect of the proposed grant of the New General Mandate respectively.

The Independent Board Committee and the Directors, having taken into account the advice of the Independent Financial Adviser, consider that (i) the Agreement was entered into on normal commercial terms and that the terms of the Agreement are fair and reasonable and in the interests of the Group so far as the Independent Shareholders for Acquisition are concerned and (ii) the proposed grant of the New General Mandate is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders for New General Mandate are concerned and accordingly recommend the Independent Shareholders for Acquisition to vote in favour of the ordinary resolution which will be proposed at the EGM for approving the Agreement and the transactions contemplated thereunder and the Independent Shareholders for New General Mandate to vote in favour of the ordinary resolutions which will be proposed at the EGM for approving the proposed grant of the New General Mandate.

The text of the letter from the Independent Board Committee is set out on pages 29 to 30 of this circular and the text of the letter from the Independent Financial Adviser containing its advice is set out on pages 31 to 57 of this circular.

RECOMMENDATION

The Board having taken into account the advice of the Independent Financial Adviser and the Independent Board Committee considers that (i) the terms of the Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and (ii) the proposed grant of the New General Mandate is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders for Acquisition to vote in favour of the ordinary resolution (1) and the Independent Shareholders for New General Mandate to vole in favour of the ordinary resolutions (2) and (3) as set out in the notice of the EGM. The Directors believe that the proposed increase in authorised share capital is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that Shareholders to vote in favour of ordinary resolution (4) as set out in the notice of the EGM to be proposed at the EGM.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 29 to 30 of this circular which contains its views in relation to the Agreement and transactions contemplated thereunder and the proposed grant of the New General Mandate; and (ii) the letter from the Independent Financial Adviser, which contains its advice to the Independent Board Committee and the Independent Shareholders for Acquisition in respect to the Agreement and transactions contemplated thereunder and the Independent Shareholders for New General Mandate in respect of the proposed grant of the New General Mandate respectively and the principal factors and reasons considered by it in arriving at its opinions. The text of the letter from the Independent Financial Adviser is set out on pages 31 to 57 of this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board of
China Digital Licensing (Group) Limited
Pang Hong Tao
Chairman

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

23 November 2009

To the Independent Shareholders for Acquisition and the Independent Shareholders for New General Mandate

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION ACQUISITION OF APPROXIMATELY 21.57% SHAREHOLDING INTEREST IN A COPYRIGHT MANAGEMENT AND DIGITAL LICENSING BUSINESS; AND (2) REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES

We refer to the circular of the Company dated 23 November 2009 (the "Circular") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you as to whether the terms of the Agreement and the transaction contemplated thereunder and the proposed grant of the New General Mandate are fair and reasonable so far as the Independent Shareholders for Acquisition and the Independent Shareholders for New General Mandate are concerned and are in the interests of the Company and the Shareholders as a whole. Veda Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders for Acquisition and the Independent Shareholders for New General Mandate in this respect. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 31 to 57 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 28 of the Circular and the additional information set out in the appendix of the Circular.

Having considered the terms of the Agreement, the principal reasons and factors considered by, and the advice of Veda Capital Limited, we are of the opinion that (i) the Agreement and the transactions contemplated thereunder is on normal commercial terms and the terms of the Agreement are fair and reasonable so far as the Independent Shareholders for Acquisition are concerned and are in the interests of the Company and the Shareholders as a whole and (ii) the proposed grant of the New General Mandate and fair and reasonable so far as the Independent Shareholders for New General Mandate are concerned and is in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders for Acquisition to vote in favour of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder and the Independent Shareholders for New General Mandate to vote in favour of the ordinary resolutions which will be proposed at the EGM for approving the proposal grant of the New General Mandate.

Yours faithfully,
Independent Board Committee of
China Digital Licensing (Group) Limited

Mr. Hsu William Shiu Foo	**Mr. Lee Kun Hung**	**Mr. Kwok Chi Sun, Vincent**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee, the Independent Shareholders for Acquisition and the Independent Shareholders for New General Mandate prepared for the purpose of inclusion in this circular.

VEDA | CAPITAL
智略資本

Veda Capital Limited
Suite 1302, 13/F
Takshing House
20 Des Voeux Road Central
Hong Kong

23 November 2009

To the Independent Board Committee,
the Independent Shareholders for Acquisition and
the Independent Shareholders for New General Mandate

Dear Sirs,

(1) MAJOR AND CONNECTED TRANSACTION ACQUISITION OF APPROXIMATELY 21.57% SHAREHOLDING INTEREST IN A COPYRIGHT MANAGEMENT AND DIGITAL LICENSING BUSINESS AND; (2) REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee, the Independent Shareholders for Acquisition and the Independent Shareholders for New General Mandate in respect of the fairness and the reasonableness of the Agreement and the proposed grant of the New General Mandate, details of which are set out in the circular to the Shareholders dated 23 November 2009 (the "**Circular**"), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

On 14 April 2008, the Purchaser, a wholly-owned subsidiary of the Company, entered into a subscription agreement (the "**First Agreement**") to acquire approximately 8.26% shareholding interest in Far Glory (the "**First Acquisition**") at a total consideration of HK$20,250,000. Details of the First Acquisition has been set out in the Company's announcement (the "**First Acquisition Announcement**") and circular dated 15 April 2008 and 5 May 2008 respectively. On 5 May 2008, the Purchaser entered into a sale and purchase agreement (the "**Second Agreement**") to further acquire 12% shareholding interest in Far Glory (the "**Second Acquisition**") at a maximum consideration of HK$45,000,000. Details of the Second Acquisition has been set out in the Company's announcement (the "**Second Acquisition Announcement**") and circular dated 6 May 2008 and 30 May 2008 respectively. On 14 August 2009, the Purchaser entered into the Former Agreement to further acquire 9.17% shareholding interest in Far Glory (the "**Third Acquisition**", altogether with the First Acquisition and the Second Acquisition, the "**Previous Acquisitions**") at a consideration of HK$13,755,000. Details of the Third Acquisition has been set out in the Company's announcement (the "**Third Acquisition Announcement**") and circular dated 18 August 2009 and 8 September 2009 respectively. Upon completion of the Third Acquisition which has taken place on 28 September 2009, the Purchaser was interested in 29.43% shareholding interest in Far Glory.

On 15 October 2009, the Company announced that the Purchaser entered into the Agreement on 8 October 2009 (as supplemented by a supplemental agreement dated 15 October 2009) to purchase the Sale Shares, which represents approximately 21.57% of the total issued share capital of Far Glory, at a total consideration of HK$32,355,000. Upon completion of the Acquisition, the Purchaser will own approximately 51% shareholding interest in Far Glory, which in turn owns 50% indirect shareholding interest in Beijing e-License and that Far Glory will become a subsidiary of the Company with the accounts of the Target Group being consolidated with that of the Group.

The Transactions (the aggregate of transactions under the Agreement and the Former Agreement) constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. Since Mr. Hsu Tung Chi, being the substantial shareholder of the Vendor, is the younger brother of Mr. Hsu Tung Sheng, an executive Director, the Acquisition therefore also constitutes a connected transaction on the part of the Company and is subject to the reporting, announcement and the approval requirements of Independent Shareholders for Acquisition by way of poll under Chapter 20 of the GEM Listing Rules.

The Board also proposed for the grant of the New General Mandate for the Directors to allot and issue Shares not exceeding 20% of the share capital of the Company in issue as at the date of the EGM, which is subject to the approval of the Independent Shareholders for New General Mandate at the EGM by way of poll.

The Independent Board Committee, comprising Mr. Hsu William Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent, all being the independent non-executive Directors, has been established to advise the Independent Shareholders for Acquisition and the Independent Shareholders for New General Mandate as to (i) whether the Agreement are in the ordinary and usual course of business of the Group; (ii) whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders for Acquisition are concerned and in the interests of the Company and the Independent Shareholders for Acquisition as a whole; (iii) whether the proposed grant of the New General Mandate is fair and reasonable and in the interests of the Company and the Independent Shareholders for New General Mandate as a whole; and (iv) how the Independent Shareholders for Acquisition and the Independent Shareholders for New General Mandate should vote in respect of the relevant resolutions approving the Agreement and the New General Mandate respectively at the EGM. The appointment of Veda Capital has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in the Circular and information provided to us by the Company, the Director(s) and the management. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company, the Director(s) and the management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the date of the EGM. We have also assumed that all statements of belief, opinion and intention made by the Director(s) in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Director(s) and have been confirmed by the Director(s) that no material facts and representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Director(s) and management of the Company. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendation regarding the Agreement and the New General Mandate.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee, the Independent Shareholders for Acquisition and the Independent Shareholders for New General Mandate in respect of the fairness and reasonableness of the Agreement and the proposed grant of the New General Mandate, we have taken into consideration the following factors and reasons:

A. THE AGREEMENT

1. Information on the Target Group

As advised by the Company, as at the Latest Practicable Date, Far Glory is owned as to approximately 29.43%, approximately 28.37%, approximately 1.50%, approximately 19.91% and approximately 20.79% by the Purchaser, the Vendor, Mr. Hsu Tung Sheng (being an executive Director), Mr. Lau Kim Hung, Jack (being an substantial Shareholder) and two independent third parties who are independent of the Company and its connected persons (as defined in the GEM Listing Rules) respectively.

As set out in the Letter from the Board (the "**Board Letter**"), the Target Group are currently engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as online entertainment and media related items) through Beijing e-License and distribution of other entertainment related business in the PRC through BLTC. BLTC is 100% owned by the Target Group and Beijing e-License is 50% beneficially owned by the Target Group and the rest of the shareholding interest is indirectly owned by e-License Inc. (Japan). e-License Inc. (Japan) is a pioneer in the development of copyright management and digital licensing technologies in Japan and is one of the leading Japan based copyright management companies specialized in the digital media industry to provide international copyright management solution and consultancy services.

As set out in the Board Letter, there were no turnover for the Target Group for the period commencing from 8 June 2007 (date of incorporation) to 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2009 respectively as the operation was not commenced. The operation of the Target Group has commenced in the September 2009. The key financial data of the Target Group as extracted from the accountant's report of the Target Group as contained in Appendix I to the Circular and prepared based on the generally accepted accounting principles in Hong Kong has been set out as follows:

	For the six months ended 30 June 2009 (audited) *(HK$)*	**For the year ended 31 December 2008 (audited)** *(HK$)*	**For the period commencing from 8 June 2007 (date of incorporation) to 31 December 2007 (audited)** *(HK$)*
Turnover	–	–	–
Loss before tax	(217,129)	(1,219,144)	(57,263)
Loss after tax	(217,129)	(1,219,144)	(57,263)

	As at 30 June 2009 (audited) *(HK$)*	**As at 31 December 2008 (audited)** *(HK$)*	**As at 31 December 2007 (audited)** *(HK$)*
Net asset/(liabilities)	25,054,347	25,271,475	(44,517)

2. Background and Financial information of the Group

The Group is principally engaged in the development and provision of on-line education programs, provide languages and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau. The Group also invests in copyright management and digital licensing business through investment in Far Glory.

According to the Group's 2008 annual report (the "**AR 2008**"), the turnover of the Group was approximately HK$10.04 million (comprising turnover generated from continuing operation of approximately HK$0.98 million and discontinued operations of approximately HK$9.06 million) for the for the year ended 31 December 2008, which represented a decrease of approximately 52.73% as compared to the turnover for the year ended 31 December 2007 of approximately HK$21.24 million generated from the discontinued operations. As set out in AR 2008, such decrease in turnover was mainly attributable to the disposal of agricultural-related business which contributed to approximately 67.4% of the turnover for the year ended 31 December 2007.

The loss attributable to Shareholders was approximately HK$66.16 million for the year ended 31 December 2008, which represented an increase in net loss attributable to Shareholders of approximately 2,578.54% as compared to the loss attributable to Shareholders for the year ended 31 December 2007 of approximately HK$2.47 million. As advised by the Directors, the increased in net loss was mainly due to (i) an impairment of goodwill in the organic fertilizer business; (ii) the increase in legal and professional expenses associated with the acquisition and disposal of subsidiaries; (iii) impairment allowance on trade and other receivables; (iv) the written-off of inventories; and (v) the share-based payment arising from granting of share options.

According to the Group's 2009 interim report (the "**IR 2009**"), the turnover of the Group was approximately HK$2.09 million (comprising turnover generated from continuing operations of approximately HK$1.92 million and discontinued operations of approximately HK$0.17 million) for the six months ended 30 June 2009, represented a decrease of approximately 62.14% as compared to the corresponding figure of approximately HK$5.52 million generated from the discontinued operations for the six months ended 30 June 2008. As set out in IR 2009, such decrease in turnover was mainly attributable to the disposal of agricultural-related business in the previous business and the disposal of language related software business in the first quarter of 2009.

The Group has recorded profit attributable to Shareholders of approximately HK$0.12 million for the six months ended 30 June 2009 and loss attributable to Shareholders of approximately HK$41.87 million for the six months ended 30 June 2008. As advised by the Company, such financial improvement was due to the disposal of loss making businesses and the corresponding decrease in the overhead expenses.

3. Reasons for the Acquisition

As set out in the Board Letter, with the increasing emphasis on anti-privacy placed by the PRC Government, the growing popularity of Internet and mobile for entertainment purpose and the introduction of 3G in the PRC, the Directors are of the view that the provision of legal and copyright protected items in particular, the on-line entertainment and media related items, are in high demand in telecommunication industry, music and entertainment industry as well as media industry in the PRC and the development of digital licensing business in the areas of Internet and telecommunications are of high profitability potential in the PRC.

Also set out in the Board Letter, although the business development of the Target Group has been delayed in 2008 as the negotiations with the telecommunication operators have taken longer time than expected due to restructuring of the telecommunication industry and the resulted changes in personnel in 2008 and the negotiations with other potential business partners have also been delayed mainly due to the global financial tsunami in the second half of 2008 and their respective business plans have been hold back due to negative changes in the global business environment, there has been some major business development and updates since its incorporation to the Latest Practicable Date, including:

(i) the Target Group has entered into an agreement with a PRC Government authority which is the sole governmental authority in the PRC responsible for management of the copyrights of audio and video items in the PRC, in April 2009 in relation to the co-operation in the area of provision of copyright management solution, the digital content licensing solution and the distribution of copyright protected items (such as online entertainment and media related items) services (the "**Co-operation Agreement**");

(ii) the Target Group has entered into an agreement with one of the telecommunication operators in the PRC for the distribution of copyright protected music and music video contents to its 3G mobile subscribers (the "**Distribution Agreement I**"); such service has become effective and has commenced operation in September 2009; in addition, the Target Group is in active negotiation with other telecommunication operators in the PRC for the distribution of copyright protected contents to its mobile subscribers;

(iii) the Target Group has entered into agreements with one of the leading global music companies in July 2009 for the provision of copyright protected music and music video contents to the two telecommunication operators in the PRC (the "**Distribution Agreement II**"); apart from this, it is also in final negotiation with the music company for the provision of copyright management solution service;

(iv) the Target Group has entered into agreements with several top music companies from March to May 2008 for the provision of copyright protected music and music video contents to Internet and mobile users (the "**Distribution Agreement III**"); and

(v) apart from the above, the Target Group is in negotiation with other major content providers for the provision of copyright management solution service as well as copyright protected contents, including music, drama series, online games, animation and comic contents to Internet and mobile users in the PRC and in the medium to long term, to other digital medium.

In view of the above, the management of the Target Group is optimistic that the Former Profit Guarantee will be achievable.

In light of (i) the above business development of the Target Group, and (ii) the technological support given by e-License Inc. (Japan) to the Target Group on the development of the copyright management and digital content licensing businesses in the PRC, given its expertise in the development of the copyright management and digital licensing technologies in Japan, the Directors believe that the Target Group is well positioned to become the pioneer in the provision of legal copyright protected on-line entertainment and media related items and the related copyright management and digital content licensing solutions in the PRC which will generate significant revenue and profit to the Group in the future. The Directors consider it is the right time to acquire further equity interest in Far Glory in order to consolidate the accounts of the Target Group with that of the Group. The Directors view that further investment into the Target Group is in the interest of the Group and the Shareholders as a whole in view of its profitability potential in the future.

We have reviewed the financial statements of the Group and noted that the Group has been loss making from the financial years from 2003 to 2008 and we noted from IR 2009 that the e-Learning business is the only remaining continuing operation of the Group. As stated in AR 2008 that despite at very high and painful costs, the Group has, once and for all, written off and disposed of all the unpromising businesses and paved the way for the developments of the e-Learning and digital licensing and copyrights management businesses, which the Group believes will have promising future and generate significant profitability in medium to long term.

Having considered (i) the optimistic prospect of the Target Group as supported by the Co-operation Agreement, Distribution Agreement I, Distribution Agreement II, Distribution Agreement III and the increasing popularity of 3G mobile in PRC; (ii) the Acquisition enables the Company to enhance its revenue by consolidating the accounts of the Target Group with that of the Group; (iii) the potential synergies to be brought by the strategic business relationship with e-License Inc. (Japan); and (iv) the Acquisition is aligned with the business strategy as set out in AR 2008, we agree with the view of the Directors that the Acquisition is in the ordinary and usual course of business of the Company and in the interests of the Company and the Independent Shareholders for Acquisition as a whole.

4. Consideration for the Acquisition

(a) Consideration

The Consideration for the Sale Shares is HK$32,355,000, which shall be payable in the following manner:

(a) as to HK$5,452,000 payable by the Purchaser procuring the Company to allot and issue the Consideration Shares at the Issue Price upon Completion; and

(b) as to HK$26,903,000 payable by the Purchaser procuring the Company to issue the Convertible Bonds upon Completion.

As set out in the Board Letter, the Consideration was agreed between the Vendor and the Purchaser after arm's length negotiations after considering: (i) the basis of consideration under the Former Agreement, after discussion with the Vendor and the management of the Target Group, the management of the Target Group is of the view that the business of the Target Group will develop according to its business plan and the development progress of the Target Group follows the initial business development plan as previous discussion with Mr. Yuan Sheng Jun in determining the basis of consideration of the Former Agreement, as a result, the Vendor and the Purchaser agreed to use the same basis of consideration under the Former Agreement, such as (a) Former Profit Guarantee; (b) price earning ratios; and (c) Issue Price, etc.; (ii) the business development and prospect of the Target Group in the medium to long term; and (iii) the current price earning multiples of companies listed on the Stock Exchange engaging in information technology business and entertainment related business similar to the Target Group ranging from about 0.21 to about 257.50 times. The Consideration represents 10 price earning multiples (the "**PER**") of the Former Profit Guarantee and equity interest to be acquired in Far Glory (i.e. HK$15,000,000 x 10 x 21.57% = HK$32,355,000). The 10 price earning multiples is in the low-end of such range and represents that the business of the Target Group is in developing stage as compared to the comparable companies. The Directors consider that the Consideration is fair and reasonable and the terms and conditions of the Acquisition are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

In order to access the fairness and reasonableness of the PER of the Acquisition, We have identified comparable companies (the "**Industry Comparables**") being listed companies on the Stock Exchange (on GEM or Main Board) engaging in businesses similar to those of the Target Group including, but not limited to, (i) provision of services in software licensing, customized information system consultancy; and/or (ii) distribution of other entertainment related business. To the best of our knowledge, we have identified 13 Industry Comparables for the Information technology sector (the "**IT Comparables**") and 16 Industry Comparables for entertainment sector (the "**Entertainment Comparables**") by searching through published information on the Stock Exchange's website. The Industry Comparables may not contain all listed companies in the related industries. The PERs are based on their respective market capitalizations as at 8 October 2009, being the date of the Agreement, and the profit attributable to the equity holders as set out in their latest annual reports. As the Industry Comparables are engaged in similar business of the Target and their respective PERs are determined with reference to the date of the Agreement, we consider the Industry Comparables are fair and representative samples. Independent Shareholders for Acquisition should note that the stated PERs of the respective companies could be sensitive to, amongst other things, each of their particular businesses, financial position and market price performance of the shares of the respective companies and therefore, the PERs of the Industry Comparables listed below are for information and reference purposes only.

IT Comparables:

Industry Comparables (Stock code)	Principal business	PER (times)
Champion Technology Holdings Ltd. (92)	Sales of general systems products, provision of services and software licensing, leasing of systems products and investments in telecommunications networks and e-commerce projects.	14.22
CCT Telecom Holdings Ltd. (138)	Manufacture and sale of telecom and electronic products, accessories and components, infant and child products, provision of e-commerce services, investment in securities, investment and development of property.	Not available because of loss making
CCT Tech International Ltd. (261)	Manufacture, sale, design and development of telecom and electronic products and accessories.	Not available because of loss making
VTech Holdings Ltd. (303)	Design, manufacture, distribution of electronic consumer products.	14.89 *(Note 1)*
SunCorp Technologies Ltd. (1063)	Design, manufacture and sale of telephones and related equipment.	6.64
China Energine International (Holdings) Ltd. (1185)	Manufacture, distribute and develop of communication products, REPM, global positioning system application products, broadband system, equipment and accessories, and wind energy business.	Not available because of loss making
SIM Technology Group Ltd. (2000)	Manufacturing, design and development and sale of liquid crystal display modules, mobile handset solutions, and wireless communication module and modems.	8.78
Foxconn International Holdings Ltd (2038)	Providing vertically integrated manufacturing services for the handset industry worldwide.	40.02 *(Note 1)*
TCL Communication Technology Holdings Ltd. (2618)	Research, development, manufacturing and sale of mobile phones and related components.	25.85
DBA Telecommunication (Asia) Holdings Ltd. (3335)	Design, manufacture and sales of telecommunication equipment and related products, self-service business, agency business for telecommunication products and advertising business.	2.42 *(Note 2)*

Industry Comparables (Stock code)	Principal business	PER (times)
Great World Company Holdings Ltd (8003)	Assembly, distribution and integration of telecommunications products and the exploration, mining and processing of iron.	Not available because of loss making
Global Resources Development (Holding) Ltd (8116)	Sales of automobile stamping and welding parts and related accessories, sales of radio trunking systems integration and provision of telemedia-related services and other value-added telecommunication-related technical services.	Not available because of loss making
Xi'an Haitian Antenna Technologies Co. Ltd. – H Shares (8227)	Research and development, manufacture and sale of base station antennas and related products.	Not available because of loss making
Maximum		**40.02**
Minimum		**2.42**
Mean		**16.12**

Notes:

1. For calculation purposes, the profit attributable to equity holders recorded in US$ will be converted into HK$ under the exchange rate of HK$7.78 to US$1.0.

2. For calculation purposes, the profit attributable to equity holders recorded in RMB will be converted into HK$ under the exchange rate of HK$1.13 to RMB1.0

Entertainment Comparables:

Industry Comparables (Stock code)	Principal business	PER (times)
A8 Digital Music Holdings Ltd. (800)	An integrated digital music company is provided music content to mobile phone subscribers.	16.29 *(Note)*
eSun Holdings Ltd. (571)	Development, operation and investment in media and entertainment; production and distribution of music, film and video format products; provision of advertising agency services and development of integrated leisure resort.	Not available because of loss making
Big Media Group Ltd (8167)	Product and sales of videos and films, and the licensing of video and copyrights/film rights.	Not available because of loss making
Imagi International Holdings Ltd. (585)	Production, licensing and sales of Computer Graphics animation pictures.	Not available because of loss making
Intelli-Media Group (Holdings) Ltd. (8173)	Distribution of video products and provision of sub-licensing services and trading of metals.	Not available because of loss making

Industry Comparables (Stock code)	Principal business	PER (times)
Golden Harvest Entertainment (Holdings) Ltd. (Stock code: 1132)	Worldwide film distribution, film exhibition, film processing, film production and television drama series production and video distribution.	98.76
Mei Ah Entertainment Group Ltd. (391)	Television operations, film exhibition, film rights licensing and sub-licensing, sale and distribution of films and programs and processing of audio usual products through its associated companies.	Not available because of loss making
China Mandarin Holdings Ltd. (9)	Film distribution and licensing, film processing and advertising and promotional services.	Not available because of loss making
Global Digital Creations Holdings Ltd. (8271)	CG creation and production, digital content distribution and exhibitions and the provision of CG training courses.	Not available because of loss making
Emperor Entertainment Group Ltd. (8078)	Artiste management, event production, music production and distribution, film and television programme production, distribution and licensing.	Not available because of loss making
Universe International Holdings Ltd (1046)	Distribution of films in various videogram formats, film exhibition, licensing and sub-licensing of film rights and leasing of investment properties.	Not available because of loss making
ERA Holdings Global Ltd. (8043)	Home video products distribution, theatrical release arrangement, film rights sub-licensing and games distribution.	Not available because of loss making
China Star Entertainment Ltd. (326)	Film production, distribution of film and television drama series, provision of post-production services.	3.81
China Star Investment Holdings Ltd. (764)	Distribution of films; sub-licensing of film rights; sales of financial assets; leasing of rental properties; provision of management services to concierge department of gaming promoters appointed by Macau casinos.	Not available because of loss making
SMI Corporation Ltd. (198)	Production, distribution and licensing of content in relation to movies and films, leisure business including theme restaurant, talent management, investments in cinema businesses and cyber cafe.	Not available because of loss making
Brilliant Arts Multi-Media Holding Ltd. (8130)	Film production, film distribution and properties investment.	Not available because of loss making
Maximum		**98.76**
Minimum		**3.81**
Mean		**39.62**

Source: www.hkex.com.hk

Note: For calculation purposes, the profit attributable to equity holders recorded in RMB will be converted into HK$ under the exchange rate of HK$1.13 to RMB1.0.

As indicated in the above table, the PER based on the Former Profit Guarantee, being 10 times, is below the means and falls within the ranges of the PERs of the IT Comparables from approximately 2.42 times to approximately 40.02 times and Entertainment Comparables from approximately 3.81 times to approximately 98.76 times.

According to the First Acquisition Announcement, the consideration for the initial acquisition of 8.26% shareholding interest in Far Glory was HK$20.25 million and on such basis, the consideration for 100% shareholding interest in Far Glory was approximately HK$245.16 million. According to the Second Acquisition Announcement, the minimum consideration for the Second Acquisition of 12% shareholding interest in Far Glory was HK$27 million, representing a PER of 15 times to the Former Profit Guarantee, and on such basis, the consideration for 100% shareholding interest in Far Glory was approximately HK$225 million. According to the Third Acquisition Announcement, the consideration for the Third Acquisition of 9.17% shareholding interest in Far Glory was HK$13.76 million, representing a PER of 10 times to the Former Profit Guarantee, and on such basis, the consideration for 100% shareholding interest in Far Glory was approximately HK$150 million. Based on the consideration for the Acquisition, the consideration for 100% shareholding interest in Far Glory was approximately HK$150 million. As such, we consider the Consideration payable to the Vendor is not more favorable than the considerations for the Previous Acquisitions.

Having considered (i) the Consideration represents a PER which is below the means and falls within the ranges of the Industry Comparables PERs; (ii) the PER for the Acquisition is same as the Third Acquisition and lower than the PER for the Second Acquisition; and (iii) the Consideration is not more favorable than the considerations for the Previous Acquisitions, we consider the Consideration is fair and reasonable so far as the Independent Shareholders for Acquisition are concerned.

(b) Consideration Shares

Pursuant to the Agreement, HK$5,452,000 shall be payable by the Purchaser by procuring the Company to allot and issue the Consideration Shares at the Issue Price of HK$0.094 upon Completion.

The Issue Price represents:

(i) a discount of approximately 27.69% to the closing price of HK$0.13 per Share as quoted on the Stock Exchange on 7 October 2009, being the last trading day immediately prior to the entering into of the Agreement (the "**Last Trading Day**");

(ii) a discount of approximately 27.69% to the average of the closing prices of HK$0.13 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to the Last Trading Day;

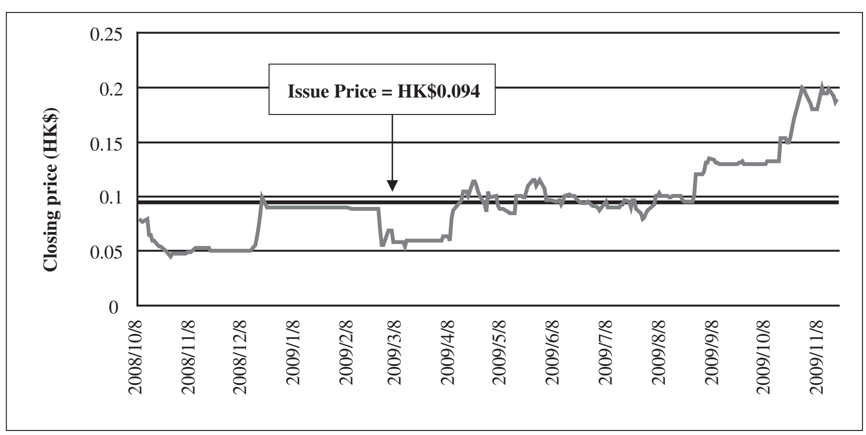
(iii) the issue price of the consideration shares issued under the Third Acquisition; and

(iv) a discount of approximately 50.26% to the closing price of HK$0.189 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As set out in the Board Letter, the Issue Price was determined by the Board after taking into consideration of various factors including, the current level of the Share price, the issue price of the consideration shares of the Former Agreement as the management of the Target Group is of the view that the current business development progress of the Target Group follows the initial business development plan as when the Former Agreement was reached and the Directors consider that the Issue Price is fair and reasonable.

(i) Historical Price Performance

The graph below illustrates the closing price levels of the Shares during the period from 8 October 2008 (being the 12 calendar months period prior to the date of the Agreement) up to the Latest Practicable Date (the "**Review Period**").



Source: website of the Stock Exchange (www.hkex.com.hk)

Note: Trading in Shares was suspended from 8 December to 10 December 2008 and from 17 August to 18 August 2009 and from 9 October to 15 October 2009.

During the Review Period, the closing price of the Shares recorded lowest closing price of HK$0.045 per Share recorded on 27 October 2008 and highest closing price of HK$0.20 recorded on 28 October and 9 November 2009. As can been seen from the graph above, the closing price of the Shares have experienced cyclic trends commencing from early October 2008 and till the end of the first quarter of 2009. Thereafter, the closing prices have been fluctuated from HK$0.08 to HK$0.101 before surged up to HK$0.12 on 28 August 2009. The closing price of the Shares has been further surged up to HK$0.154 on 16 October 2009, being the first trading day after publication of the Announcement. Since then, the closing prices of the Shares have fluctuated between HK$0.15 to HK$0.20.

(ii) Comparable Analyses

In order to assess the fairness and reasonableness of the terms of the Conversion Shares, to the best of our knowledge, we have looked into companies listed on the Main Board or GEM of the Stock Exchange which have made announcements for acquisition of assets by issuing consideration shares (the "**Share Comparables**") from 8 July 2009 up to and including 8 October 2009, being the date of the Agreement, for reference. As the stock market sentiment in Hong Kong has experienced abrupt changes since the global financial crisis and yet to be stable, we consider fund raising announced three months prior to the date of the Agreement would be an adequate time frame to reflect the recent market conditions. As the terms of the Share Comparables are determined under similar market conditions and sentiments as the Consideration Shares, we consider the Share Comparables are fair and representative samples.

Share Comparable (stock code)	**Date of announcement**	**Value of the consideration shares**	**Approximate premium/ (discount) of issue price to the closing price prior to the release of the announcement**	**Approximate premium/ (discount) of issue price to the average closing price for the last five consecutive trading days prior to the release of the announcement**
		HK$'million	%	%
Tianjin Tianlian Public Utilities Company Limited (8290)	5-Oct-09	701.43 *(Note)*	(15.0)	(13.0)
RBI Holdings Limited (566)	1-Oct-09	367.37	1.23	0
Chaoyue Group Limited (147)	29-Sep-09	93.60	(0.78)	0
China Post E-Commerce (Holdings) Limited (8041)	25-Sep-09	77.0	93.0	87.10

Share Comparable (stock code)	Date of announcement	Value of the consideration shares *HK$'million*	Approximate premium/ (discount) of issue price to the closing price prior to the release of the announcement %	Approximate premium/ (discount) of issue price to the average closing price for the last five consecutive trading days prior to the release of the announcement %
Sino-Tech International Holdings Limited (724)	23-Sep-09	194.40	(68.40)	(63.70)
Fushan International Energy Group Limited (639)	22-Sep-09	1,794.63	1.20	0
Poly (Hong Kong) Investments Limited (119)	17-Sep-09	2,742.0	(12.80)	(6.30)
Buildmore International Limited (108)	16-Sep-09	42.0	(22.94)	(19.62)
Grand T G Gold Holdings Limited (8299)	7-Sep-09	36.45	74.19	82.93
Winbox International (Holdings) Limited (474)	7-Sep-09	354.85	(26.67)	(24.40)
Broad Intelligence International Pharmaceutical Holdings Limited (1149)	4-Sep-09	85.15	(1.52)	(7.67)
China Sciences Conservational Power Limited (351)	3-Sep-09	61.20	(66.37)	(62.22)
EPI (Holdings) Limited (689)	25-Aug-09	190.0	(33.30)	(38.10)
Ming Fung Jewellery Group Limited (860)	25-Aug-09	110.00	1.12	0.45
The Quaypoint Corporation Limited (2330)	20-Aug-09	246.80	(13.79)	(11.03)
China Digital Licensing (Group) Limited (8175)	18-Aug-09	13.76	(5.05)	(5.81)

Share Comparable (stock code)	Date of announcement	Value of the consideration shares *HK$'million*	Approximate premium/ (discount) of issue price to the closing price prior to the release of the announcement %	Approximate premium/ (discount) of issue price to the average closing price for the last five consecutive trading days prior to the release of the announcement %
China Post E-Commerce (Holdings) Limited (8041)	19-Aug-09	14.40	4.40	1.3
GreaterChina Technology Group Limited (8032)	16-Aug-09	1.38	(20.63)	(21.88)
Tongda Group Holdings Limited (698)	14-Aug-09	71.19	0.63	5.02
Sino Union Petroleum & Chemical International Limited (346)	14-Aug-09	2,500.00	3.40	0
Poly Development Holdings Limited (1141)	11-Aug-09	1,500	(16.72)	0
Pearl Oriental Innovation Limited (632)	4-Aug-09	50.00	4.17	(3.60)
BEL Global Resources Holdings Limited (761)	28-Jul-09	150.00	14.68	16.06
Wing On Travel (Holdings) Limited (1189)	24-Jul-09	640.00	(18.60)	(8.90)
Prosperity International Holdings (H.K.) Limited (803)	24-Jul-09	1,621.86	(35.06)	(33.33)
China Renji Medical Group Limited (648)	21-Jul-09	195.00	51.52	47.06
China Pipe Group Limited (380)	17-Jul-09 & 8-Sep-09	48.00	(1.64)	1.69
China Electric Power Technology Holdings Limited (8053)	10-Jul-09	45.40	2.95	0.00

Share Comparable (stock code)	Date of announcement	Value of the consideration shares	Approximate premium/ (discount) of issue price to the closing price prior to the release of the announcement	Approximate premium/ (discount) of issue price to the average closing price for the last five consecutive trading days prior to the release of the announcement
		HK$'million	*%*	*%*
Shougang Concord International Enterprises Company Limited (697)	8-Jul-09	580.50	0.00	(1.98)
Green Global Resources Limited (61)	8-Jul-09	31.50	(71.10)	(63.40)
North Mining Shares Company Limited (433)	8-Jul-09	820.16	(20.00)	(7.98)
For all Share Comparables:				
Maximum			**93.0**	**87.10**
Minimum			**(71.10)**	**(63.70)**
Mean			**(6.38)**	**(4.88)**
For those Share Comparables which have their issue prices represent or represent a discount over the closing price on the last trading day and the average closing price for the last 5 trading days prior the release of the relevant announcements (the "Share Subset Comparables"):				
Maximum Discount			**(71.10)**	**(63.70)**
Minimum Discount			**0**	**0**
Mean			**(24.19)**	**(20.81)**
Company			**(27.69)**	**(27.69)**

Source: website of the Stock Exchange (www.hkex.com.hk)

Note: Pursuant to the relevant announcement of Tianjin Tianlian Public Utilities Company Limited, the consideration to be satisfied by consideration shares was amounted to RMB620,736,991.48, which has been converted into HK$ based on the exchange rate of RMB1 = HK$1.13 for illustration purpose.

Based on the above illustration, the discount represented by the issue price per consideration share issued by respective Share Subset Comparables to their respective closing prices on the last trading day before the suspension of trading in the shares pending for the release of the relevant announcements ranged from approximately 0% to approximately 71.10% and with an average of approximately 24.19%. Upon comparison, we note that the discount of the Issue Price to the closing price on the Last Trading Day falls within the relevant range of the Share Subset Comparables.

In addition, the discount represented by the issue price per consideration share issued by respective Share Subset Comparables to their respective 5-day-average closing prices up to the last trading day before the suspension of trading in the shares pending for the release of the relevant announcements ranged from approximately 0% to approximately 63.70% and with an average of approximately 20.81%. Upon comparison, we note that the discount of the Issue Price to the 5-day-average closing price up to the Last Trading Day falls within the relevant range of the Share Subset Comparables.

In light of the fact that (i) the Issue Price is equivalent to the issue price of the consideration shares issued under the Former Agreement which was with reference to the prevailing market prices around the date of the Former Agreement; (ii) the discount of the Issue Price to the closing price on the Last Trading Day falls within the relevant range of the Share Subset Comparables; and (iii) the discount of the Issue Price to the 5-day-average closing price up to the Last Trading Day falls within the relevant range of the Share Subset Comparables, we consider the Issue Price is fair and reasonable so far as the Independent Shareholders for Acquisition are concerned.

(b) Convertible Bonds

Pursuant to the Agreement, HK$26,903,000 shall be payable by the Purchaser by procuring the Company to issue to the Vendor (or its nominees) the Convertible Bonds in the principal amount of HK$ HK$26,903,000.

(i) Principal terms of the Convertible Bonds

Maturity	:	The fifth anniversary from the date of issue of the Convertible Bonds.
Interest rate	:	Zero coupon
Conversion price	:	HK$0.094 per Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues. Such adjustments will be certified by an independent approved merchant bank or the auditors of the Company for the then time being.

Redemption	:	Unless previously converted or lapsed or redeemed by the Company, the Company will redeem the Convertible Bonds on the Maturity Date. Company may at any time before the Maturity Date by serving at least seven days' prior written notice on the Bondholder(s) with the total amount proposed to be redeemed from the Bondholder(s) specified therein, redeem the Convertible Bonds (in whole or in part) at par. Any amount of the Bond(s) which remains outstanding on the Maturity Date shall be redeemed at its then outstanding principal amount.
Transferability	:	The Bondholder(s) may assign or transfer the Convertible Bonds to Independent Third Parties in whole or in part in integral multiples of HK$1,000,000 or if the outstanding principal amount of the Convertible Bonds is less than HK$1,000,000, the whole but not in part of the Convertible Bonds may be assigned or transferred.
Conversion	:	Under the terms of the Convertible Bonds, the aggregate shareholdings of the Vendor and its concert parties upon any conversion of the Convertible Bonds or any other previous convertible securities must not exceed 29.99% or more of the issued share capital of the Company on the date of the conversion and that any conversion will not trigger off a mandatory offer under rule 26 of the Code on the part of the Vendor. The Vendor shall by notice inform the Company and request to convert the Convertible Bonds and the Company will not issue the Conversion Shares to the Vendor if the aggregate shareholding of the Vendor and its concert parties upon any conversion of the Convertible Bonds or any other previous convertible securities exceeds 29.99% or more of the issued share capital of the Company. Subject to above, the Vendor will have the right to convert the whole or part of the principal amount of the Convertible Bonds into Shares at any time and from

time to time, from the date of issue of the Convertible Bonds in amounts of not less than a whole multiple of HK$1,000,000 on each conversion.

The Conversion Price is equivalent to the Issue Price and as set out in the Board Letter, the Conversion Price was determined after arm's length negotiations among the Purchaser, the Vendor and the Company with reference to the Issue Price.

(ii) Comparable Analyses

In order to assess the fairness and reasonableness of the terms of the Convertible Bonds, to the best of our knowledge, we have looked into recent issues of convertible notes/bonds by companies listed on the Main Board and GEM of the Stock Exchange which have made announcements for acquisition of assets by issuing convertible notes/bonds (the "**CB Comparables**") from 8 July 2009 up to and including 8 October 2009, being the date of the Agreement, for reference. As the terms of the CB Comparables are determined under similar market conditions and sentiments as the Convertible Bonds, we believe that the CB Comparables may reflect the recent trend of the terms of convertible bonds/notes in the market and consider the CB Comparables are fair and representative samples.

CB Comparable (stock code)	Date of announcement	Principal amount	Interest per annum	Maturity	Premium/ (discount) over/to the last trading day prior to the date of the corresponding announcement	Premium/ (discount) over/to the average of the last 5 trading days prior to the date of the corresponding announcement
		(HK$ million)	*(%)*	*(years)*	*(%)*	*(%)*
RBI Holdings Limited (566)	1-Oct-09	3,814.95	0	4	1.23	0
Bright International Group Limited (1163)	27-Sep-09	6,950.00	0	3	(9.09)	(3.54)
Sino-Tech International Holdings Limited (724)	23-Sep-09	950.40	0	5	(68.40)	(63.70)
Yun Sky Chemical (International) Holdings Limited (663)	23-Sep-09	1,855.00	0	5	(69.20)	(64.80)

CB Comparable (stock code)	Date of announcement	Principal amount *(HK$ million)*	Interest per annum *(%)*	Maturity *(years)*	Premium/ (discount) over/to the last trading day prior to the date of the corresponding announcement *(%)*	Premium/ (discount) over/to the average of the last 5 trading days prior to the date of the corresponding announcement *(%)*
Hembly International Holdings Limited (3989)	23-Sep-09	676.04	0	5	22.45	53.06
Shanghai Allied Cement Limited (1060)	22-Sep-09	350.00	0	3	135.29	144.40
Buildmore International Limited (108)	16-Sep-09	273.00	0	3	(22.94)	(19.62)
Winbox International (Holdings) Limited (474)	7-Sep-09	984.01 *(Note 1)*	0	5	(26.67)	(24.40)
Broad Intelligence International Pharmaceutical Holdings Limited (1149)	4-Sep-09	1.179.85	0	5	(1.52)	(7.67)
EPI (Holdings) Limited (689)	25-Aug-09	2,311.52	0	20	(28.10)	(33.20)
Ming Fung Jewellery Group Limited (860)	25-Aug-09	190.0	3.0	1.5	1.12	0.45
Sino Union Petroleum & Chemical International Limited (346)	14-Aug-09	2,300	0	3.0	3.40	0
Poly Development Holdings Limited (1141)	11-Aug-09	1,360.09	0	5.0	(16.72)	0
Global Resources Development (Holding) Limited (8116)	31-Jul-09	498.00	0	5	(56.92)	(48.78)

CB Comparable (stock code)	Date of announcement	Principal amount	Interest per annum	Maturity	Premium/ (discount) over/to the last trading day prior to the date of the corresponding announcement	Premium/ (discount) over/to the average of the last 5 trading days prior to the date of the corresponding announcement
		(HK$ million)	*(%)*	*(years)*	*(%)*	*(%)*
BEL Global Resources Holdings Limited (761)	28-Jul-09	300.00	0	5	37.61	39.28
Superb Summit International Timber Company Limited (1228)	23-Jul-09	798.83	0.20	3	(23.08)	(20.63)
Brilliant Arts Multi-Media Holding Limited (8130)	9-Jul-09	750.00	0	10	(70.15)	(69.70)
For all CB Comparables:						
Maximum			**3.00**	**20**	**135.29**	**144.40**
Minimum			**0**	**1.5**	**(70.15)**	**(69.70)**
Mean			**0.19**	**5.32**	**(11.27)**	**(7.00)**
For those CB Comparables which have their conversion prices represent or represent a discount over the closing price on the last trading day and the average closing price for the last 5 trading days prior the release of the relevant announcements (the "CB Subset Comparables"):						
Maximum Discount					**(70.15)**	**(69.70)**
Minimum Discount					**(1.52)**	**0**
Mean					**(35.71)**	**(32.37)**
Company			**0**	**5**	**(27.69)**	**(27.69)**

Source: website of the Stock Exchange (www.hkex.com.hk)

Note: Pursuant to the relevant announcement of Winbox International (Holdings) Limited, the aggregate principal amount was US$126.48 million which has converted into HK$ based on the exchange rate of US$1 = HK$7.78 for illustration purposes.

Based on the above illustration, the discount represented by the Conversion Price to the closing price on the Last Trading Day falls within the range of 1.52% to 70.15% and lower than the relevant mean of the CB Subset Comparables. The discount represented by the Conversion Price to the average closing price on the last 5 trading days prior the release of the Announcement falls within the range from 0% to 69.70% and lower than the relevant mean of the CB Subset Comparables.

In light of (i) the discounts represented by the Conversion Price to the closing price on the Last Trading Day and average closing price for the last five consecutive trading days up to and including the Last Trading Day falls within the relevant ranges of the CB Subset Comparables; (ii) the Conversion Price is equivalent to the Issue Price; and (iii) the Convertible Bonds are non-interest bearing, we are of the view that the terms of the Convertible Bonds are on normal commercial terms, fair and reasonable and are in the interest of the Company and the Independent Shareholders for Acquisition as a whole.

5. Financial effect of the Acquisition

(i) Net asset value

As reported in the IR 2009, the unaudited net asset value of the Group as at 30 June 2009 was approximately HK$44.38 million. As set out in Appendix III of the Circular, upon completion of the Acquisition, the net assets of the Group will increase to approximately HK$81.75 million.

(ii) Earnings

In view of the optimistic prospect of the Target Group and the synergistic effects to the Group as mentioned in the section headed "3. Reasons for the Acquisition", we consider that it is a fair expectation that the Acquisition will have a positive impact on the earnings position of the Group upon Completion.

6. Potential dilution effect to the public Shareholders

The table showing the effect of the Acquisition on the shareholding structure of the Company has been set out under the section headed "**CHANGES IN SHAREHOLDING STRUCTURE**" in the Board Letter.

As shown in the shareholding table, the shareholding of the existing public Shareholders will be decreased from approximately 72.67% to approximately 70.49% upon following the allotment and issue of the Consideration Shares and further decreased to approximately 66.06% upon conversion of the Convertible Bonds immediately before triggering a mandatory general offer obligation under the Code. We consider the dilution effect is acceptable so far as the Independent Shareholders for Acquisition are concerned.

7. Recommendation

Having considered the above-mentioned principal factors and reasons, in particular, taking into account that:

(i) the optimistic prospect of the Target Group as supported by the Co-operation Agreement, the Distribution Agreement I, Distribution Agreement II, Distribution Agreement III and the increasing popularity of 3G mobile in PRC;

(ii) the Acquisition enables the Company to enhance its revenue by consolidating the accounts of the Target Group with that of the Group;

(iii) the potential synergies to be brought by the strategic business relationship with e-License Inc. (Japan);

(iv) the Acquisition is aligned with the business strategy as set out in AR 2008;

(v) the Consideration represents a PER which is below the means and falls within the ranges of the Industry Comparables PERs;

(vi) the PER for the Acquisition is equivalent to the PER of the Third Acquisition and lower than the PER for the Second Acquisition;

(vii) the discounts of Issue Price to the closing price on the Last Trading Day and to the 5-day-average closing price up to the Last Trading Day falls within the relevant ranges of the Share Subset Comparables;

(viii) the discounts of Conversion Price to the closing price on the Last Trading Day and to the 5-day-average closing price up to the Last Trading Day falls within the relevant ranges of the CB Subset Comparables; and

(ix) by satisfying the Consideration by issue of Consideration Shares and the Convertible Bonds to the Purchaser, the Group can preserve its cash position and at the same time strengthen its equity base,

we consider (i) the Acquisition is in the ordinary and usual course of business of the Company; (ii) the terms of the Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders for Acquisition are concerned; and (iii) the Acquisition and the terms thereof are in the interests of the Company and the Independent Shareholders for Acquisition as a whole. We would therefore recommend the Independent Shareholders for Acquisition and advise the Independent Board Committee to recommend the Independent Shareholders for Acquisition to vote in favour of the resolution to approve the Acquisition to be proposed at the EGM.

B. NEW GENERAL MANDATE

1. Background of and Reasons for the New General Mandate

As set out in the Board Letter, at the AGM, an ordinary resolution was approved to grant to the Directors the Current General Mandate to allot and issue not more than 273,015,016 Shares, being 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing such resolution. As at the Latest Practicable Date, the Current General Mandate had been utilised as to 273,000,000 Shares upon the placing of 273,000,000 Shares by the Company, being approximately 99.99% of the aggregate number of Shares which may be allotted and issued under the Current General Mandate.

As at the Latest Practicable Date, the Company had an aggregate of 1,871,004,867 Shares in issue. Subject to the passing of the ordinary resolution for the approval of the New General Mandate and on the basis that no further Shares are issued and/or repurchased by the Company between the Latest Practicable Date and the date of the EGM, the Company would be allowed under the New General Mandate to allot and issue up to 374,200,973 Shares, being 20% of the total number of Shares in issue as at the Latest Practicable Date.

The Board believes that grant of the New General Mandate is in the best interests of the Company and the Shareholders as a whole by maintaining the financial flexibility necessary for the Group's future business development. The Board considers equity financing to be an important avenue of resources to the Group since it does not create any interest paying obligations on the Group. In appropriate circumstances, the Group will also consider other financing methods such as debt financing or internal cash resources to fund its future business development. While the Board considers that there is no immediate funding need for the Group's current operations and that there is currently no concrete proposal presented by potential investors for investment in the Shares, the Board is now proposing to seek the approval of Independent Shareholders for New General Mandate at the EGM for the New General Mandate such that should future funding needs arise or attractive terms for investment in the Shares become available from potential investors, the Board will be able to respond to the market and such investment opportunities promptly because fund raising exercise pursuant to a general mandate provides the Company a more simple and less lead time process than other types of fund raising exercises and to avoid the uncertainties in such circumstances that specific mandate may not be obtained in a timely manner.

Having considered that the New General Mandate would provide the Group with financial flexibility to raise equity capital for the Company in a timely manner for potential investments in the future as and when such opportunities arise and to strengthen the capital base and financial position of the Company, we concur with the Directors that the proposed grant of the New General Mandate would provide the Company with the necessary financial flexibility to fulfill any possible funding needs for future business development and/or investment decisions, and is in the interests of the Company and the Independent Shareholders for New General Mandate as a whole.

2. Other financing alternatives

As debt financing may incur interest burden to the Group, equity financing such as issuance of new Shares for cash or equity swaps may be an appropriate mean to provide funding for the future investment and/or development of the Group, given the Group's financial position, capital structure, cost of funding and the then financial market condition. Other financing methods such as debt financing or internal cash resources to fund future business development of the Company shall be taken into consideration in appropriate circumstances.

We consider that the grant of the New General Mandate will provide the Company with an additional alternative and it is reasonable for the Company to have the flexibility in deciding the financing methods for its future investment and/or development, including equity issuance. As such, we are of the view that the grant of the New General Mandate is in the interests of the Company and the Independent Shareholders for New General Mandate as a whole.

3. Potential dilution effect on the shareholding structure

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and, for illustrative purpose, the potential dilution effect on the shareholdings of Independent Shareholders for New General Mandate upon full utilisation of the New General Mandate, assuming no Shares are issued or repurchased by the Company during the period between the Latest Practicable Date and the date of the EGM:

	As at the Latest Practicable Date		**Upon full utilization of the New General Mandate**	
	Number of Shares	*Approx. %*	*Number of Shares*	*Approx. %*
Shareholders				
Manciple Enterprises Limited and its associates	405,198,238	21.66	405,198,238	18.05
The Vendor and its associate	25,000,000	1.34	25,000,000	1.11
Directors:				
Pang Hong Tao	29,800,000	1.59	29,800,000	1.32
Ma She Shing, Albert	9,870,000	0.52	9,870,000	0.44
Au Shui Ming Anna	41,500,000	2.22	41,500,000	1.85
Subtotal	**81,170,000**	**4.33**	**81,170,000**	**3.61**
Public Shareholders	1,359,636,629	72.67	1,359,636,629	60.56
Additional Shareholders upon full utilisation of the New General Mandate	–	–	374,200,973	16.67
Total	**1,871,004,867**	**100.00**	**2,245,205,840**	**100.00**

As illustrated in the table above, the existing aggregate shareholding of the public Shareholders will decrease from 72.67% as at the Latest Practicable Date to approximately 60.56% upon full utilisation of the New General Mandate. Taking into account that the New General Mandate (i) will provide an alternative to increase the amount of capital which may be raised under the New General Mandate; (ii) provides more options of financing to the Group for further development of its business as well as in other potential future investment and/or acquisitions as and when such opportunities arise; and (iii) the fact that the shareholdings of all Shareholders will be diluted proportionately to their respective shareholding upon any utilization of the New General Mandate, we consider such dilution or potential dilution to shareholdings of the Independent Shareholders for New General Mandate to be justifiable.

4. Recommendation

Having considered the factors and reasons as stated above, we are of the view that the grant of the New General Mandate is in the interests of the Company and Independent Shareholders for New General Mandate as a whole, and is fair and reasonable. Accordingly, we recommend the Independent Shareholders for New General Mandate and advise the Independent Board Committee to recommend the Independent Shareholders for New General Mandate to vote in favour of the ordinary resolution in relation to the grant of the New General Mandate to be proposed at the EGM. Independent Shareholders for New General Mandate are however advised to take note of the possible dilution effect on their shareholding interests in the Company when and if the New General Mandate is utilised.

Yours faithfully,
For and on behalf of
Veda Capital Limited
Hans Wong — *Managing Director*
Julisa Fong — *Executive Director*

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from World Link CPA Limited.

World Link CPA Ltd. Certified Public Accountants
滙領會計師事務所有限公司

23 November 2009

The Board of Directors
China Digital Licensing (Group) Limited
Unit 1601, Ruttonjee House,
Ruttonjee Centre, II Duddell Street,
Central, Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Far Glory Limited (the "Far Glory") and its subsidiaries (hereinafter collectively referred to as the "Far Glory Group") for the period from 8 June 2007 (date of incorporation of Far Glory) to 31 December 2007, year ended 31 December 2008 and the six-month period ended 30 June 2009 (the "Relevant Periods") for inclusion in the circular of The China Digital Licensing (Group) Limited (the "Company") dated 23 November 2009 (the "Circular") in connection with the proposed acquisition of approximately 21.57% of issued share capital of Far Glory by Cheer Plan Limited ("Cheer Plan"), a wholly-owned subsidiary of the Company (the "Acquisition").

Far Glory was incorporated in the British Virgin Islands ("BVI") on 8 June 2007 with limited liability under the BVI Business Companies Act, 2004 of BVI and acts as an investment holding company. The registered office of Far Glory is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

As at the date of this report, Far Glory has direct and indirect interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ registration	Nominal value of issued/ registered capital	Attributable equity interest held by Far Glory		Principal activities
			Directly	Indirectly	
Great Wave Limited ("Great Wave")	British Virgin Islands 11 June 2007	US$1	100%	–	Investment holding
Sky Asia Investments Limited ("Sky Asia")	Hong Kong 4 July 2007	HK$1	–	100%	Investment holding
北京聯易匯眾科技有限公司 Beijing LianYiHuiZhong Technology Company Limited# ("Beijing LianYiHuiZhong")	The People's Republic of China ("the PRC") 31 October 2007	HK$2,000,000	–	100%	Distribution of copyright protected items and other entertainment related business

The unofficial English translation is for identification purpose only.

All companies of the Far Glory Group have adopted 31 December as their financial year end date for statutory reporting and/or management reporting purposes.

Up to the date of this report, no audited financial statements of Far Glory and Great Wave for the Relevant Periods have been prepared since their date of incorporation as there are no statutory requirements in their country of jurisdiction.

The statutory audited financial statements of Sky Asia for the period from 4 July 2007 (date of incorporation of Sky Asia) to 31 December 2008 were audited by Vision A.S. Limited, Certified Public Accountants.

The financial statements of Beijing LianYiHuiZhong were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC. The financial statements of Beijing LianYiHuiZhong for the period from 31 October 2007 (date of incorporation of Beijing LianYiHuiZhong) to 31 December 2007 and year ended 31 December 2008 were audited by 北京中崇信會計師事務所 and 北京競宇會計師事務所有限公司 respectively.

For the purpose of this report, the directors of Far Glory have prepared the consolidated financial statements of the Far Glory Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). For the purpose of this report, we have performed independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The financial information and the notes thereto for the Relevant Periods (the "Financial Information") as set out in this report have been prepared by the directors of Far Glory based on the Underlying Financial Statements and in accordance with HKFRSs. We have examined the Financial Information of Far Glory Group for the Relevant Periods and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Far Glory are responsible for the preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Far Glory and the Far Glory Group as at 31 December 2007, 31 December 2008 and 30 June 2009 and of the consolidated results and cash flows of Far Glory Group for the Relevant Periods.

The comparative consolidated statements of comprehensive income, cash flows and changes in equity of the Far Glory Group for the six months ended 30 June 2008 together with the notes thereon (the "30 June 2008 Financial Information") have been extracted from unaudited financial information for the same period which was prepared by the directors of Far Glory solely for the purpose of this report. We have reviewed the 30 June 2008 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the Entity" issued by the HKICPA. Our review of the 30 June 2008 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2008 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information is not prepared, in all material aspects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with Hong Kong Financial Reporting Standards.

I. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

	Notes	8 June 2007 (date of incorporation) to 31 December 2007 HK$	Year ended 31 December 2008 HK$	Six-month period ended 30 June 2008 HK$ (unaudited)	Six-month period ended 30 June 2009 HK$
Turnover	5	–	–	–	–
Cost of sales		–	–	–	–
Gross profit		–	–	–	–
Other revenue	5	1,253	165,677	13,818	53,005
Administrative expenses		(58,448)	(384,829)	(157,892)	(270,134)
Loss from operations		(57,195)	(219,152)	(144,074)	(217,129)
Finance costs	7	(60)	–	–	–
Share of loss of associated companies		(8)	(999,992)	(999,992)	–
Loss before tax	8	(57,263)	(1,219,144)	(1,144,066)	(217,129)
Income tax	10	–	–	–	–
Loss and total comprehensive (loss) for the period/year		(57,263)	(1,219,144)	(1,144,066)	(217,129)

Consolidated Statements of Financial Position

		As at 31 December		As at 30 June
		2007	2008	2009
	Notes	*HK$*	*HK$*	*HK$*
Non-current assets				
Interests in associates	*12*	–	–	–
Current assets				
Other receivables	*13*	3,080,000	3,185,361	4,609,961
Due from associates	*14*	1,049,992	5,634,270	6,589,090
Cash and cash equivalents	*16*	2,004,711	16,498,387	13,937,900
Total current assets		6,134,703	25,318,018	25,136,951
Current liabilities				
Accrued liabilities		–	46,543	82,604
Shareholders' loans	*19*	6,179,220	–	–
Total current liabilities		6,179,220	46,543	82,604
Net current (liabilities)/assets		(44,517)	25,271,475	25,054,347
Net (liabilities)/assets		(44,517)	25,271,475	25,054,347
Equity				
Share capital	*20*	800	87,200	87,200
(Deficits)/Reserves	*21*	(45,317)	25,184,275	24,967,147
Total equity		(44,517)	25,271,475	25,054,347

Statements of Financial Position

		As at 31 December		As at 30 June
		2007	**2008**	**2009**
	Notes	*HK$*	*HK$*	*HK$*
Non-current assets				
Investment in a subsidiary	*11*	8	8	8
Investment in associates	*12*	–	–	–
Total non-current assets		8	8	8
Current assets				
Other receivables	*13*	3,080,000	3,080,000	3,080,000
Due from an associate	*14*	1,049,992	4,050,000	5,061,000
Due from subsidiaries	*15*	2,049,992	18,285,925	17,291,125
Total current assets		6,179,984	25,415,925	25,432,125
Current liabilities				
Due to a shareholder	*17*	–	–	22,000
Due to a subsidiary	*18*	8,150	–	–
Shareholders' loans	*19*	6,179,220	–	–
Total current liabilities		6,187,370	–	22,000
Net current (liabilities)/assets		(7,386)	25,415,925	25,410,125
Net (liabilities)/assets		(7,378)	25,415,933	25,410,133
Equity				
Share capital	*20*	800	87,200	87,200
(Deficits)/Reserves	*21*	(8,178)	25,328,733	25,322,933
Total equity		(7,378)	25,415,933	25,410,133

Consolidated statements of changes in equity

	Share capital *HK$*	Share premium *HK$*	Deficit *HK$*	Exchange reserve *HK$*	Total *HK$*
Issue of shares upon incorporation on 8 June 2007	800	–	–	–	800
Loss and total comprehensive loss for the period	–	–	(57,263)	–	(57,263)
Exchange difference on translation of financial statements of subsidiary	–	–	–	11,946	11,946
At 31 December 2007	800	–	(57,263)	11,946	(44,517)
Loss and total comprehensive loss for the year	–	–	(1,219,144)	–	(1,219,144)
Exchange difference on translation of financial statements of subsidiary	–	–	–	105,916	105,916
Issue of shares	86,400	26,342,820	–	–	26,429,220
At 31 December 2008	87,200	26,342,820	(1,276,407)	117,862	25,271,475
Loss and total comprehensive loss for the period	–	–	(217,129)	–	(217,129)
Exchange difference on translation of financial statements of subsidiary	–	–	–	1	1
At 30 June 2009	87,200	26,342,820	(1,493,536)	117,863	25,054,347
For the six month ended 30 June 2008 (Unaudited):					
At 1 January 2008	800	–	(57,263)	11,946	(44,517)
Loss and total comprehensive loss for the period	–	–	(1,144,066)	–	(1,144,066)
Exchange difference on translation of financial statements of subsidiary	–	–	–	105,916	105,916
Issue of shares	86,400	26,342,820	–	–	26,429,220
At 30 June 2008 (unaudited)	87,200	26,342,820	(1,201,329)	117,862	25,346,553

Consolidated statements of cash flows

	Note	8 June 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Six-month period ended 30 June 2008	2009
		HK$	*HK$*	*HK$* (unaudited)	*HK$*
Cash flow from operating activities					
Loss before taxation		(57,263)	(1,219,144)	(1,144,066)	(217,129)
Adjustment for:–					
Finance costs		60	–	–	–
Interest income		(1,253)	(165,678)	(165,678)	(53,005)
Share of loss of an associate		8	999,992	999,992	–
Operating cash flows before changes in working capital		(58,448)	(384,830)	(309,752)	(270,134)
Increase in other receivables		(3,080,000)	(105,361)	(34,075)	(1,424,600)
Increase in accrued liabilities		–	46,543	1,848	36,061
Net cash used in operating activities		(3,138,448)	(443,648)	(341,979)	(1,658,673)
Cash flow from investing activities					
Interest received		1,253	165,678	165,678	53,005
Investment in an associate		(8)	(999,992)	(999,992)	–
Increase in amount due from an associate		(1,049,992)	(4,584,278)	(898,876)	(954,820)
Net cash used in investing activities		(1,048,747)	(5,418,592)	(1,733,190)	(901,815)
Cash flow from financing activities					
Proceeds from issue of shares		800	20,250,000	5,999,992	–
Shareholders' loans raised		6,179,220	–	–	–
Finance costs		(60)	–	–	–
Net cash from financing activities		6,179,960	20,250,000	5,999,992	–
Net increase in cash and cash equivalents		1,992,765	14,387,760	3,924,823	(2,560,488)
Cash and cash equivalents at beginning of the period/year		–	2,004,711	2,004,711	16,498,387
Effect of foreign exchange rate changes		11,946	105,916	105,916	1
Cash and cash equivalents at end of the period/year		2,004,711	16,498,387	6,035,450	13,937,900
Analysis of cash and cash equivalents					
Cash and bank balances	*16*	2,004,711	16,498,387	6,035,450	13,937,900

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Far Glory is a limited liability company incorporated in the British Virgin Islands. The registered office of Far Glory is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

Far Glory acts as an investment holding company during the Relevant Periods. Details of the principal activities of its subsidiaries and associates are set out in notes 11 and 12, respectively, to the Financial Information.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information of the Relevant Periods, Far Glory has applied all the HKFRSs, HKASs, amendments and Interpretation ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are effective for the Periods.

Far Glory has not early applied the following new and revised standards, amendments or INTs that have been issued but are not yet effective at the date of this report.

HKFRSs (Amendments)	Improvement of HKFRSs May 2008[1]
HKFRSs (Amendments)	Improvement of HKFRSs April 2009[2]
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements[3]
HKAS 39 Amendment	Eligible Hedged Items[3]
HKFRS 1 (Revised)	Additional Exemptions for First-time Adopters[4]
HKFRS 2 Amendment	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 3 (Revised 2008)	Business Combinations[3]
HK (IFRIC*) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK (IFRIC) – Int 18	Transfers of Assets from Customers[5]

1 Effective for annual periods beginning on or after 1 January 2009, except the amendments to HKFRS 5 which are effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 January 2010.
5 Effective for transfer of assets from customers received on or after 1 July 2009.

The directors of Far Glory anticipate that the adoption of new and revised standards, amendments and INTs will have no material impact on the results and the financial position of Far Glory.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information have been prepared in accordance with accounting principles generally accepted in Hong Kong including all applicable HKFRSs and HKASs issued by the HKICPA. They have been prepared on the historical cost convention. The measurement bases are fully described in the accounting policies below.

* *IFRIC represents the International Financial Reporting Interpretations Committee*

The Financial Information have been prepared on a going concern basis notwithstanding that Far Glory and the Far Glory Group have net liabilities as at 31 December 2007 as the shareholders have undertaken to provide continuous financial support to Far Glory, and to maintain it as a going concern.

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of Far Glory and its subsidiaries for the Relevant Periods. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Far Glory Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Far Glory Group are eliminated on consolidation.

The acquisition of subsidiaries during the Relevant Periods has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

(c) Subsidiaries

A subsidiary is an entity in which Far Glory controls, directly or indirectly, its financial and operating policies so as to obtain benefits from its activities.

The result of subsidiary is included in Far Glory's statement of comprehensive income to the extent of dividends received and receivable. Far Glory's investment in a subsidiary is stated at cost less any impairment losses.

(d) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which Far Glory has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

Far Glory Group investment in an associate is stated in the consolidated statement of financial position at the Far Glory Group's share of net assets under the equity method of accounting, less any impairment losses. The Far Glory Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively.

The result of associate is included in Far Glory's statement of comprehensive income to the extent of dividends received and receivable. Far Glory's investment in an associate is treated as non-current assets and is stated at cost less any impairment losses.

(e) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however but not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

(f) Related parties

A party is considered to be related to the Far Glory Group if:

(i) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Far Glory Group; (ii) has an interest in the Far Glory Group that gives it significant influence over the Far Glory Group; or (iii) has joint control over the Far Glory Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Far Glory Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Far Glory Group, or of any entity that is a related party of the Far Glory Group.

(g) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(h) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Far Glory Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(i) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

– where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(j) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Far Glory Group and when the revenue can be measured reliably, on the following bases:

– From the rendering of services, when such services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided;

– interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(k) Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

(l) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is Far Glory's functional and presentation currency. Each entity in the Far Glory Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the reporting date, the assets and liabilities of these entities are translated into the presentation currency of Far Glory at the exchange rates ruling at the reporting date, and their statement of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the period.

(m) Segment Reporting

A segment is a distinguishable component of the Far Glory Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different form those of other segments.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information for the Relevant Periods requires management to make judgements, estimated and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could required a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

In the process of applying the Far Glory Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

5. TURNOVER AND OTHER REVENUE

The Far Glory Group did not generate any turnover during the Relevant Periods. An analysis of the Far Glory Group's other revenue is as below:

	8 June 2007 (date of incorporation) to 31 December 2007	**Year ended 31 December 2008**	**Six-month period ended 30 June**	
			2008	**2009**
	HK$	*HK$*	*HK$* (unaudited)	*HK$*
OTHER REVENUE				
Interest income	1,253	165,677	10,054	53,005
Exchange gain	–	–	3,764	–
	1,253	165,677	13,818	53,005

6. SEGMENTAL INFORMATION

No business or geographical segment analysis is presented as all operations, assets and liabilities of the Far Glory Group are related to the provision of copyright management solution and distribution of copyright protected items and over 90% of the assets and potential customers are located in the People's Republic of China.

7. FINANCE COSTS

Finance costs in the consolidated statements of comprehensive income represent:–

	8 June 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Six-month period ended 30 June 2008	Six-month period ended 30 June 2009
	HK$	*HK$*	*HK$* (unaudited)	*HK$*
Interest on bank overdrafts	60	–	–	–

8. LOSS BEFORE TAX

Loss before tax is arrived after charging:

	8 June 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Six-month period ended 30 June 2008	Six-month period ended 30 June 2009
	HK$	*HK$*	*HK$* (unaudited)	*HK$*
Auditors' remuneration	–	12,133	–	4,267
Minimum lease payments under operating leases on land and buildings	8,533	32,000	–	8,533
Exchange losses, net	6,293	33,068	–	–
Incorporation fee	22,800	–	–	–
Employee benefits expense (excluding directors' remuneration – *note 9*)				
Salaries and allowances	–	234,247	110,058	213,862

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

During the Relevant Periods, no remuneration was paid or payable to the directors of Far Glory.

The details of the remuneration of the five highest paid individuals for the period/year are as follows:

	8 June 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Six-month period ended 30 June 2008	2009
	HK$	*HK$*	*HK$* (unaudited)	*HK$*
Salaries	–	234,247	110,058	191,030

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	8 June 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	Six-month period ended 30 June 2008	2009
	Number of individuals	*Number of individuals*	*Number of individuals* (unaudited)	*Number of individuals*
HK$ Nil to HK$1,000,000	–	5	5	5

During the Relevant Periods, no remuneration was paid by the Far Glory Group to the directors or five highest paid individuals as a inducement to join or upon joining the Far Glory Group or as compensation for loss of office.

10. INCOME TAX

No provision for Hong Kong and overseas profits tax has been made as the Far Glory Group did not generate any assessable profits arising from its operations during the Relevant Periods.

There are no material unprovided deferred tax assets and liabilities at 31 December 2007, 31 December 2008 and at 30 June 2009.

A reconciliation of the tax credit applicable to loss before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	8 June 2007 (date of incorporation) to 31 December	Year ended 31 December	Six-month period ended 30 June	
	2007	2008	2008	2009
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Loss before tax	(57,263)	(1,219,144)	(1,144,066)	(217,129)
Tax calculated at the rates applicable to profit in the countries concerned	(13,450)	(226,517)	(198,477)	(54,488)
Income not subject to tax	(219)	(25,841)	(400)	(8,730)
Expenses not deductible for tax	13,669	252,358	198,877	63,218
Tax charge for the period/year	–	–	–	–

Hong Kong profits tax

No Hong Kong profits tax has been provided because the operation did not generate any assessable profits in Hong Kong during the Relevant Periods. The statutory rate of Hong Kong profits tax for period ended 2007 is 17.5%, for year ended 2008 and six-month period ended 30 June 2008 and 2009 is 16.5%.

PRC corporate income tax

The PRC corporate income tax in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for each of the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

11. INVESTMENT IN A SUBSIDIARY

	As at 31 December 2007 HK$	2008 HK$	As at 30 June 2009 HK$
Unlisted shares, at cost	8	8	8

Particulars of the subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation/ registration	Nominal value of issued/ registered capital	Attributable equity interest held by Far Glory	Principal activities
Great Wave Limited	British Virgin Islands 11 June 2007	US$1	100% (directly)	Investment holding
Sky Asia Investments Limited	Hong Kong 4 July 2007	HK$1	100% (indirectly)	Investment holding
Beijing LianYiHuiZhong Technology Company Limited	The People's Republic of China 31 October 2007	HK$2,000,000	100% (indirectly)	Distribution of copyright protected items and other entertainment related business

12. INVESTMENT/INTERESTS IN ASSOCIATES

Far Glory Group

	As at 31 December 2007 HK$	2008 HK$	As at 30 June 2009 HK$
Unlisted shares, at cost	8	1,000,000	1,000,000
Share of post-acquisition loss	(8)	(1,000,000)	(1,000,000)
	–	–	–

Far Glory

	As at 31 December 2007 HK$	2008 HK$	As at 30 June 2009 HK$
Unlisted shares, at cost	8	1,000,000	1,000,000
Impairment	(8)	(1,000,000)	(1,000,000)
	–	–	–

Particulars of associates are as follows:

At 31 December 2007:

Name of associate	Place and date of incorporation/ registration	Nominal value of issued and fully paid share capital registered capital	Attributable equity interest held by Far Glory	Principal activities
Shinning Day Limited	British Virgin Islands 7 June 2007	US$2	50% (directly)	Investment holding
Golden Sino Limited	Hong Kong 12 June 2007	HK$1,000	50% (indirectly)	Investment holding
Beijing YiLaiShen Technology Company Limited	The People's Republic of China 31 October 2007	Paid up capital of HK$2,000,000 out of registered capital of HK$2,000,000	50% (indirectly)	Provision of copyright management solution and distribution of copyright protected items

At 31 December 2008:

Name of associate	Place and date of incorporation/ registration	Nominal value of issued and fully paid share capital registered capital	Attributable equity interest held by Far Glory	Principal activities
Shinning Day Limited	British Virgin Islands 7 June 2007	US$4	50% (directly)	Investment holding
Golden Sino Limited	Hong Kong 12 June 2007	HK$1,000	50% (indirectly)	Investment holding
Beijing YiLaiShen Technology Company Limited	The People's Republic of China 31 October 2007	Paid up capital of HK$6,000,000 out of registered capital of HK$8,000,000	50% (indirectly)	Provision of copyright management solution and distribution of copyright protected items

At 30 June 2009:

Name of associate	Place and date of incorporation/ registration	Nominal value of issued and fully paid share capital registered capital	Attributable equity interest held by Far Glory	Principal activities
Shinning Day Limited	British Virgin Islands 7 June 2007	US$4	50% (directly)	Investment holding
Golden Sino Limited	Hong Kong 12 June 2007	HK$1,000	50% (indirectly)	Investment holding
Beijing YiLaiShen Technology Company Limited	The People's Republic of China 31 October 2007	Paid up capital of HK$7,000,000 out of registered capital of HK$8,000,000	50% (indirectly)	Provision of copyright management solution and distribution of copyright protected items

The financial statements of the above associates are coterminous with those of Far Glory.

All the above associates have been accounted for using the equity method in the Financial Information. The following table illustrates the summarised financial information of Far Glory's associates extracted from their management financial statements:

	As at 31 December		As at 30 June
	2007	2008	2009
	HK$	*HK$*	*HK$*
Total assets	2,014,647	3,389,607	1,868,268
Total liabilities	2,101,920	6,321,960	7,053,465
Revenue	1,265	7,065	8,327
Loss	105,209	4,920,886	2,243,856

13. OTHER RECEIVABLES

The directors consider the carrying amount approximate to their fair value.

14. DUE FROM ASSOCIATES

Far Glory Group

	As at 31 December		As at 30 June
	2007	2008	2009
	HK$	*HK$*	*HK$*
Amounts due from associates	1,049,992	5,634,270	6,589,090

Far Glory

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Amount due from an associate	1,049,992	4,050,000	5,061,000

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

15. DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

16. CASH AND CASH EQUIVALENTS

Far Glory Group

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Cash and bank balances	2,004,711	497,549	4,626,232
Time deposits	–	16,000,838	9,311,668
Cash and cash equivalents in the consolidated statements of cash flows	2,004,711	16,498,387	13,937,900

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the operation, and earn interest at the respective short-term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents approximate to their fair values.

The cash and bank balances of the Far Glory Group amounting to HK$1,485,105 as at 31 December 2007, HK$110,775 as at 31 December 2008 and HK$12,349 as at 30 June 2009 are denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Far Glory Group is permitted to exchange RMB for other currencies through authorized banks to conduct foreign exchange business.

17. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and has no fixed terms of repayment.

18. DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

19. SHAREHOLDERS' LOANS

The shareholders' loans are unsecured, interest-free and have no fixed terms of repayment.

20. SHARE CAPITAL

	As at 31 December		As at 30 June
	2007	2008	2009
	HK$	*HK$*	*HK$*
Authorised:			
50,000 shares of US$1 each	400,000	400,000	400,000
Issued and fully paid			
100/10,900 shares of US$1 each	800	87,200	87,200

Upon incorporation, the authorised share capital of Far Glory was US$50,000 divided into 50,000 shares of US$1 each. Upon incorporation, 100 shares were issued for cash at par for the initial capital of Far Glory.

On 10 April 2008 and 21 April 2008, 9,900 ordinary shares of HK$624 each and 900 shares of HK$22,500 each were issued for total consideration of HK$6,179,220 and HK$20,250,000 respectively. The shares were issued for the purpose of providing additional capital to Far Glory. The premium of HK$26,342,820 over the par value of the shares has been credited to share premium account.

21. (DEFICITS)/RESERVES

a) Far Glory Group

The amounts of the group's consolidated reserves and the movements therein are presented in the consolidated statement of changes in equity.

b) Far Glory

	Share capital	Share premium	Deficit	Total
	HK$	*HK$*	*HK$*	*HK$*
Issue of shares upon incorporation on 8 June 2007	800	–	–	800
Loss for the period	–	–	(8,178)	(8,178)
At 31 December 2007	800	–	(8,178)	(7,378)
Issue of shares *(note 20)*	86,400	26,342,820	–	26,429,220
Loss for the year	–	–	(1,005,909)	(1,005,909)
At 31 December 2008	87,200	26,342,820	(1,014,087)	25,415,933
Loss for the period	–	–	(5,800)	(5,800)
At 30 June 2009	87,200	26,342,820	(1,019,887)	25,410,133

22. RELATED PARTY TRANSACTIONS

Other than the transactions and balances detailed elsewhere in the Financial Information, Far Glory and the Far Glory Group had no significant transactions with related parties during the Relevant Periods.

23. CONTINGENT LIABILITIES

At 31 December 2007, 31 December 2008 and at 30 June 2009, Far Glory and the Far Glory Group have no significant contingent liabilities.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Far Glory Group's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Far Glory Group.

(i) Interest rate risk

Far Glory Group is exposed to fair value interest rate risk in relation to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. However, the directors consider Far Glory Group's exposure to such interest rate risks is not significant as bank balances are all short-term in nature.

(ii) Foreign currency risk

Far Glory Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

During the Relevant Periods, if HK$ had strengthened/weakened by 5% against the RMB, with all other variable held constant, the effects on loss for the Relevant Periods and on equity are immaterial.

The above sensitivity analysis has been determined assuming that a change in foreign exchange rates had occurred at the balance sheet date and had been applied to the exposure to foreign exchange risk for financial instruments in existence at that date. The 5 percentage point increase or decrease represents management's assessment of a reasonably possible change in exchange rates over the period until the next annual balance sheet date.

(iii) Credit risk

Far Glory Group's maximum credit exposure of financial assets at the reporting dates equals to their carrying amounts. Far Glory Group's credit risk is primarily attributable to its other receivables. Far Glory Group manages its credit risk by closely monitoring the granting of credit. Far Glory Group also reviews the recoverable amount of each individual receivable at each reporting date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of Far Glory Group consider that Far Glory Group's credit risk is significantly reduced.

Cash at bank is normally placed with licensed banks that have credit ratings equal to or better than the Far Glory Group. Given their high credit ratings, management does not expect any licensed bank to fail to meet its obligations.

(iv) Liquidity risk

Individual operating entities within the Far Glory Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by Far Glory's board when the borrowings exceed certain predetermined levels of authority. The Far Glory Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Far Glory also monitors closely the cash flows of its subsidiaries. Generally, the Far Glory's subsidiaries are required to obtain Far Glory's approval for activities such as investment of surplus cash, raising of loans and settlement of suppliers' invoices beyond certain limits.

The Far Glory Group actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall liquidity management, the Far Glory Group maintains sufficient level of cash to meet its working capital requirements.

(v) Fair value

The carrying amounts of the financial assets and liabilities in the Financial Information approximate their fair values.

25. CAPITAL RISK MANAGEMENT

The primary objective of Far Glory's capital risk management is to safeguard Far Glory's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

Far Glory manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Far Glory may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Far Glory monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Far Glory's gearing ratio as at 31 December 2007, 31 December 2008 and 30 June 2009 were 100%, 0% and 0% respectively.

III. EVENTS AFTER THE BALANCE SHEET DATE

Up to the date of this report, the Far Glory Group had no material events for disclosure after the balance sheet date.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Far Glory and its subsidiaries in respect of any period subsequent to 30 June 2009 up to the date of this report. In addition, no dividend or distribution has been declared, made or paid by Far Glory or its subsidiaries in respect of any period subsequent to 30 June 2009.

1. SUMMARY OF FINANCIAL INFORMATION

The following table summaries the results, assets and liabilities of the Group for the last three financial years ended 31 December 2008 as extracted from the relevant published financial statement of the Group.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December

	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Turnover	6,622	21,238	10,044
Cost of sales	(3,489)	(6,768)	(4,849)
Gross Profit	3,133	14,470	5,195
Other income	656	2,823	1,468
Research and development expenses	(1,166)	(1,101)	(978)
Selling and distribution expenses	(1,189)	(1,171)	(1,381)
Administrative expenses	(7,707)	(9,694)	(19,794)
Other expenses	–	(951)	(63,259)
Finance cost	–	(236)	(842)
Profit/(loss) before from operating activities	(6,273)	4,140	(79,591)
Gain on disposal of subsidiaries	–	–	5,549
Share of losses from associates	–	–	(22)
Profit/(loss) before Tax	(6,273)	4,140	(74,064)
Taxation	–	(3,434)	3,659
Profit/(loss) for the year	(6,273)	(706)	(70,405)
Attributable to:			
Equity holders of the Company	(6,273)	(2,470)	(66,159)
	(Restated)	(Restated)	
Loss per share - Basic	(0.88 cents)	(0.27 cents)	(4.97 cents)

CONSOLIDATED BALANCE SHEET
As at 31 December

	2006 HK$'000	2007 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	158	9,070	204
Interest in associates	–	–	65,228
Goodwill	–	51,207	19,826
Other intangible assets	–	1,387	–
Total non- current assets	158	61,664	85,258
CURRENT ASSETS			
Inventories	62	1,053	–
Trade and other receivables	4,638	24,772	1,473
Due from a director	–	–	20
Cash and bank balances	22,707	48,287	12,109
Assets of a disposal group classified as held for sale	–	–	2,324
Total current assets	27,407	74,112	15,926
CURRENT LIABILITIES			
Trade and other payables	3,989	8,813	2,416
Financial assistance from government	236	268	–
Tax payable	–	3,526	44
Liabilities associate with assets classified as held for sale	–	–	6,067
Total current liabilities	4,225	12,607	8,527
NET CURRENT ASSETS	23,182	61,505	7,399
TOTAL ASSETS LESS CURRENT LIABILITIES	23,340	123,169	92,657
NON-CURRENT LIABILITIES			
Financial assistance from government	1,059	1,027	–
Promissory note	–	4,467	3,740
Convertible Notes	–	–	22,735
Other payables	–	–	26,160
Deferred tax liabilities	–	–	33
Total non-current liabilities	1,059	5,494	52,668
NET ASSETS	22,281	117,675	39,989
CAPITAL AND RESERVES			
Share Capital	29,498	66,519	66,519
Reserves	(7,217)	33,137	(27,202)
	22,281	99,656	39,317
Minority interest	–	18,019	672
	22,281	117,675	39,989

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited financial statements of the Group for the three years ended 31 December 2008 together with accompanying notes extracted from the 2008 Annual Report of the Company. References to page numbers in this appendix are to the pages numbers of the 2008 Annual Report of the Company.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
TURNOVER	7		
Continuing operation		985	–
Discontinued operations		9,059	21,238
		10,044	21,238
Cost of sales		(4,849)	(6,768)
Gross profit			
Continuing operation		807	–
Discontinued operations		4,388	14,470
Other revenue and gains	7	1,468	2,823
Research and development expenses		(978)	(1,101)
Selling and distribution costs		(1,381)	(1,171)
Administrative expenses		(19,794)	(9,694)
Other expenses	8	(63,259)	(951)
Finance costs	9	(842)	(236)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		(79,591)	4,140
Gain on disposal of subsidiaries	40	5,549	–
Share of losses from associates		(22)	–
PROFIT/(LOSS) BEFORE TAX	10		
Continuing operation		(28,896)	(3,706)
Discontinued operations		(45,168)	7,846
		(74,064)	4,140
Tax	13		
Continuing operation		(77)	–
Discontinued operations		3,736	(3,434)
		3,659	(3,434)

	Notes	2008 HK$'000	2007 HK$'000
PROFIT/(LOSS) FOR THE YEAR			
Continuing operation		(28,973)	(3,706)
Discontinued operations		(41,432)	4,412
		(70,405)	706
ATTRIBUTABLE TO:			
Equity holders of the Company	*14*	(66,159)	(2,470)
Minority interests		(4,246)	3,176
PROFIT/(LOSS) FOR THE YEAR		(70,405)	706
DIVIDENDS	*17*	–	–
LOSS PER SHARE	*18*		
From continuing and discontinued operations			
– Basic (HK cent)		(4.97)	(0.27)
From continuing operation			
– Basic (HK cent)		(2.19)	(0.41)

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	19	204	9,070
Interests in associates	22	65,228	–
Goodwill	23	19,826	51,207
Other intangible assets	24	–	1,387
Total non-current assets		85,258	61,664
CURRENT ASSETS			
Inventories	25	–	1,053
Trade and other receivables	26	1,473	24,772
Due from a director	27	20	–
Cash and bank balances		12,109	48,287
Assets of a disposal group classified as held for sale	16	2,324	–
Total current assets		15,926	74,112
CURRENT LIABILITIES			
Trade and other payables	28	2,416	8,813
Financial assistance from government	29	–	268
Tax payable		44	3,526
Liabilities associated with assets classified as held for sale	16	6,067	–
Total current liabilities		8,527	12,607
Net current assets		7,399	61,505
Total assets less current liabilities		92,657	123,169

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Financial assistance from government	*29*	–	1,027
Promissory note	*30*	3,740	4,467
Convertible notes	*31*	22,735	–
Other payables	*32*	26,160	–
Deferred tax liabilities	*37*	33	–
Total non-current liabilities		52,668	5,494
Net assets		39,989	117,675
EQUITY			
Issued capital	*33*	66,519	66,519
Reserves		(27,202)	33,137
		39,317	99,656
Minority interests		672	18,019
		39,989	117,675

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Attributable to equity holders of the Company										
	Issued capital HK$'000	Share premium HK$'000	Special reserve* HK$'000	Warrant subscription reserve HK$'000	Exchange reserve HK$'000	Employee share-based compensation reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	29,498	22,821	10,084	1,469	(24)	2,314	–	(43,881)	22,281	–	22,281
Issue of shares on open offer	22,173	13,304	–	–	–	–	–	–	35,477	–	35,477
Consideration shares	6,788	10,181	–	–	–	–	–	–	16,969	–	16,969
Share/warrant issue expenses	–	(978)	–	–	–	–	–	–	(978)	–	(978)
Shares issued upon exercise of share options	2,170	9,695	–	–	–	(2,931)	–	–	8,934	–	8,934
Shares issued upon exercise of warrants	5,890	13,838	–	(1,469)	–	–	–	–	18,259	–	18,259
Employee share-based compensation	–	–	–	–	–	617	–	–	617	–	617
Acquisition of subsidiaries	–	–	–	–	40	–	–	–	40	14,093	14,133
Exchange realignment	–	–	–	–	527	–	–	–	527	750	1,277
Loss for the year	–	–	–	–	–	–	–	(2,470)	(2,470)	3,176	706
At 31 December 2007	66,519	68,861	10,084	–	543	–	–	(46,351)	99,656	18,019	117,675

	Attributable to equity holders of the Company										
	Issued capital HK$'000	Share premium HK$'000	Special reserve* HK$'000	Warrant subscription reserve HK$'000	Exchange reserve HK$'000	Employee share-based compensation reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	66,519	68,861	10,084	–	543	–	–	(46,351)	99,656	18,019	117,675
Issue of convertible notes – *note 31*	–	–	–	–	–	–	3,453	–	3,453	–	3,453
Redemption of convertible note – *note 31*	–	–	–	–	–	–	(617)	–	(617)	–	(617)
Share issue expenses	–	(253)	–	–	–	–	–	–	(253)	–	(253)
Open offer expenses	–	(505)	–	–	–	–	–	–	(505)	–	(505)
Employee share-based compensation – *note 35*	–	–	–	–	–	4,354	–	–	4,354	–	4,354
Acquisition of subsidiaries – *note 39*	–	–	–	–	–	–	–	–	–	6,019	6,019
Disposal of subsidiaries – *note 40*	–	–	–	–	(1,741)	–	–	–	(1,741)	(20,202)	(21,943)
Exchange realignment	–	–	–	–	1,129	–	–	–	1,129	1,082	2,211
Loss for the year	–	–	–	–	–	–	–	(66,159)	(66,159)	(4,246)	(70,405)
At 31 December 2008	66,519	68,103	10,084	–	(69)	4,354	2,836	(112,510)	39,317	672	39,989

* *The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. at the date which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation taken place in 2003.*

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	2008	2007
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit/(loss) before tax:	(74,064)	4,140
Adjustments for:		
Depreciation of property, plant and equipment	2,665	212
Property, plant and equipment written off	389	–
Inventories written off	1,416	–
Impairment of goodwill	36,000	–
Impairment of intangible assets	1,464	–
Impairment allowance on trade and other receivables	19,851	–
Share of losses from associates	22	–
Amortisation of prepaid land lease payments	9	–
Amortisation of intangible assets	7	–
Release of deferred government grants	(274)	–
Employee share-based compensation	4,354	617
Finance costs	842	236
Interest income	(760)	(400)
Gain on disposal of subsidiaries	(5,549)	–
Operating cash flows before movements in working capital	(13,628)	4,805
Increase in inventories	(2,171)	(926)
Increase in trade and other receivables	(2,843)	(12,938)
Increase in amount due from a director	(27)	–
Increase/(decrease) in trade and other payables	(315)	4,674
NET CASH USED IN OPERATING ACTIVITIES	(18,984)	(4,385)
INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(1,806)	(8,892)
Purchases of intangible assets	–	(1,387)
Interest received	760	400
Investments in associates	(25,250)	–
Acquisition of subsidiaries	(4,147)	(19,444)
Disposal of subsidiaries	8,710	–
NET CASH USED IN INVESTING ACTIVITIES	(21,733)	(29,323)

	2008	2007
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Interest on promissory notes paid	(159)	–
Interest on convertible notes paid	(37)	–
Other interest paid	–	(181)
Net proceeds from issue of shares	–	62,670
Share/warrant issue expenses	(253)	(978)
Open offer expenses	(505)	–
Redemption of convertible notes	(10,000)	–
Repayment of promissory notes	(23,567)	(17,000)
Proceeds from settlement of promissory note receivable	37,500	–
Capital injection for minority shareholders	–	13,419
NET CASH FROM FINANCING ACTIVITIES	2,979	57,930
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(37,738)	24,222
Cash and cash equivalents at beginning of year	48,287	22,707
Effect of foreign exchange rate changes, net	1,799	1,358
CASH AND CASH EQUIVALENTS AT END OF YEAR	12,348	48,287
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	12,109	48,287
Cash and cash equivalents included in a disposal group held for sale *(note 16)*	239	–
	12,348	48,287

BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	60,500	67,971
CURRENT ASSETS			
Trade and other receivables	26	241	550
Due from a director	27	20	–
Cash and bank balances		10,377	31,675
Total current assets		10,638	32,225
CURRENT LIABILITIES			
Trade and other payables	28	692	818
Total current liabilities		692	818
Net current assets		9,946	31,407
Total assets less current liabilities		70,446	99,378
NON-CURRENT LIABILITIES			
Promissory note	30	3,740	–
Convertible notes	31	22,735	–
Total non-current liabilities		26,475	–
Net assets		43,971	99,378
EQUITY			
Issued capital	33	66,519	66,519
Reserves	34	(22,548)	32,859
		43,971	99,378

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

1. GENERAL INFORMATION

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

The Company's principal activity has not changed during the year and consisted of investment holding. Details of the principal activities of its subsidiaries are set out in note 21 to the financial statements.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which also include 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. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial statements of the year.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3.1 Impact Of Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]

HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[3]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods beginning on or after 1 July 2008

[5] Effective for annual periods beginning on or after 1 October 2008

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interest represents the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is an entity in which the Company controls, directly or indirectly, its financial and operating policies so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed 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 testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. 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. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	$3^1/_3\%$
Leasehold improvements	$10\% – 33^1/_3\%$
Plant and machinery	$9^1/_2\% – 10\%$
Water pipelines	10%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	20%
Computer equipment	$33^1/_3\%$

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Construction in progress represents buildings, water pipelines, plant and machineries under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the land leased.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Production technology

The production technology has indefinite useful life and is stated at cost less any impairment losses.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of recourses to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contracts that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sales financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial asset) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's financial liabilities are generally classified into financial liabilities at fair value through profit of loss and other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including bank and other borrowing, trade payables and other payables) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at fair value through profit or loss, of which the interest expense is included in net gains or losses.

Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expenses recognised in the income statement is calculated using the effective interest method. The equity component is recognised in the convertible notes reserve until either the note is converted or redeemed.

If the note is converted, the convertible notes reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existed liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Financial assistance from government

The Innovation and Technology Fund ("ITF") of the Hong Kong Special Administrative Region Government has provided financial assistance to the Group to assist in a specific product development. The funding is unsecured, non-interest bearing and repayable to ITF when revenue is generated from the specific product. The amount repaid, if any, will be in stages and calculated with reference to the revenue generated and received.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sales of organic fertilizers, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) software maintenance service income, which is received or receivables from customers when the maintenance service contracts are entered into, is amortised and credited to the income statement on a straight-line basis over the term of the maintenance service contract;

(c) software rental and subscription income from software application, website development and Putonghua learning platform are derived from providing software application to customers. The income is recognised when services are provided;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) sales of licensed software are recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and titles has been passed, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(f) income from e-Learning business is recognised when e-Learning materials are delivered and installation services are rendered;

(g) revenue arising from water supply is recognised based on water supplied as recorded by meters read during the year; and

(h) consulting income from the rendering of consultation services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above.

Employee benefits

Equity-settled share-based payment transactions

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employee is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, if material, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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 future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 and the details are given in note 23.

Impairment of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

6. SEGMENTAL INFORMATION

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(i) the server-based technology segment provides language communication software and platforms;

(ii) the e-Learning business segment provides e-Learning programs and development of related products;

(iii) the organic fertilizers segment produces and distributes organic fertilizers; and

(iv) the water supply segment provides water supply services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2008 and 2007.

Year ended 31 December 2008

	Continuing operation	Discontinued operations				
	e-Learning business	Server-based technology	Organic fertilizers	Water supply	Subtotal	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue						
Sale to external customers	985	7,853	877	329	9,059	10,044
Segment results	807	5,095	(502)	(205)	4,388	5,195
Unallocated income	445				6,572	7,017
Unallocated expenses	(29,284)				(56,128)	(85,412)
Unallocated finance costs	(842)				–	(842)
Share of losses from associates	(22)				–	(22)
Loss before tax	(28,896)				(45,168)	(74,064)
Tax	(77)				3,736	3,659
Minority interests	(121)				4,367	4,246
Loss for the year	(29,094)				(37,065)	(66,159)
Assets and liabilities						
Segment assets	3,168	2,324	–	–	2,324	5,492
Interests in associates						65,228
Unallocated assets						30,464
Consolidated total assets						101,184
Segment liabilities	1,790	6,067	–	–	6,067	7,857
Unallocated liabilities						53,338
Consolidated total liabilities						61,195
Other segment information						
Depreciation and amortisation	73	59	712	1,837	2,608	2,681
Impairment losses on goodwill	–	–	36,000	–	36,000	36,000
Impairment losses on intangible assets	–	–	1,464	–	1,464	1,464
Impairment losses on trade and other receivables	–	–	19,851	–	19,851	19,851
Inventories written off	–	–	1,416	–	1,416	1,416
Property, plant and equipment written off	–	1	388	–	389	389
Capital expenditure	–	82	347	1,377	1,806	1,806

Year ended 31 December 2007

		Discontinued operations			
	Continuing operation	**Server-based technology**	**Organic fertilizers**	**Subtotal**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue					
Sale to external customers	–	6,929	14,309	21,238	21,238
Segment results	–	4,089	10,381	14,470	14,470
Unallocated revenue	377			2,446	2,823
Unallocated expenses	(3,847)			(9,070)	(12,917)
Unallocated finance costs	(236)			–	(236)
Profit before tax	(3,706)			7,846	4,140
Tax	–			(3,434)	(3,434)
Minority interests	–			(3,176)	(3,176)
Profit/(loss) for the year	(3,706)			1,236	(2,470)
Assets and liabilities					
Segment assets	–	2,037	95,132	97,169	97,169
Unallocated assets	38,427			180	38,607
Consolidated total assets	38,427			97,349	135,776
Segment liabilities	–	5,583	7,151	12,734	12,734
Unallocated liabilities	5,345			22	5,367
Consolidated liabilities	5,345			12,756	18,101
Other segment information					
Depreciation	–	104	108	212	212
Capital expenditure	–	42	10,237	10,279	10,279

(b) Geographical segments

The following table presents revenue and certain asset, liability and expenditure information for the Group's geographical segments for the year ended 31 December 2008.

Year ended 31 December 2008

	Mainland China	**Hong Kong**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue			
Sale to external customers	1,518	8,526	10,044
Other segment information			
Segment assets	191	5,301	5,492
Capital expenditure	1,725	81	1,806

Year ended 31 December 2007

	Mainland China	**Hong Kong**	**Consolidated**
Segment revenue			
Sale to external customers	14,460	6,778	21,238
Other segment information			
Segment assets	95,183	1,986	97,169
Capital expenditure	10,237	42	10,279

7. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered for the year.

An analysis of the Group's turnover, other revenues and gains for the year is as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
TURNOVER		
Continuing operation		
e-Learning business	985	–
Discontinued operations		
Sale of organic fertilizers	877	14,309
Sale of licensed software	4,641	4,111
Software maintenance service	1,407	803
Software rental and subscription income	780	328
Website development	50	1,001
Putonghua learning platform	975	686
Provision of water supply services	329	–
	9,059	21,238
	10,044	21,238
OTHER REVENUE AND GAINS		
Interest income	760	400
Consulting income	400	–
Release of deferred government grants	274	–
Income from transfer of technologies	–	2,364
Sundry income	34	59
	1,468	2,823

8. OTHER EXPENSES

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Impairment of goodwill	36,000	–
Professional expenses for restructuring	4,139	951
Impairment of intangible assets	1,464	–
Property, plant and equipment written off	389	–
Inventories written off	1,416	–
Impairment allowance on trade and other receivables	19,851	–
	63,259	951

9. FINANCE COSTS

	Group 2008	2007
	HK$'000	*HK$'000*
Interest on promissory notes	124	236
Interest on convertible notes	718	–
Total interest expense on financial liabilities not at fair value through profit or loss	842	236

10. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging:

	Group 2008	2007
	HK$'000	*HK$'000*
Employee benefits expenses (excluding directors' remuneration)		
Salaries and allowances	5,288	5,493
Pension scheme contributions	273	373
Employee share-based payment	2,590	–
	8,151	5,866
Auditors' remuneration	268	301
Exchange loss, net	129	53
Minimum lease payments under operating leases on land and buildings	1,357	1,198
Cost of services rendered *	1,442	408
Cost of inventories sold	3,407	6,360
Amortisation of intangible assets	7	–
Amortisation of prepaid land lease payments	9	–
Depreciation of property, plant and equipment	2,665	212

* Included in both cost of services provided and other employee benefits, are salaries and allowances of approximately HK$730,000 (2007: HK$408,000) and operating lease payments of approximately HK$63,000 (2007: HK$63,000) respectively.

11. DIRECTORS' REMUNERATION

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Fees	783	549
Other emoluments:		
Salaries, allowances and benefits in kind	1,112	1,601
Employee share-based compensation	1,764	617
Pension scheme contributions	25	30
	3,684	2,797

(a) Independent non-executive directors

The directors' fees paid to independent non-executive directors during the year were as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Hsu William Shiu Foo	60	60
Lee Kun Hung	60	60
Kwok Chi Sun, Vincent	60	60
	180	180

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors and non-executive director:

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Employee share-based compensation *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
2008					
Executive directors:					
Mo Wai Ming, Lawrence	120	700	–	12	832
Pang Hong Tao	220	–	561	–	781
Au Shui Ming, Anna	153	412	545	9	1,119
Yang Pei Gen (resigned on 3 April 2008)	30	–	335	–	365
	523	1,112	1,441	21	3,097
Non-executive director:					
Ma She Shing, Albert	80	–	323	4	407
	603	1,112	1,764	25	3,504
2007					
Executive directors:					
Mo Wai Ming, Lawrence	120	920	47	12	1,099
Pang Hong Tao	57	–	169	–	226
Au Shui Ming, Anna	57	395	185	12	649
Yang Pei Gen (resigned on 3 April 2008)	15	286	169	–	470
	249	1,601	570	24	2,444
Non-executive director:					
Ma She Shing, Albert	120	–	47	6	173
	369	1,601	617	30	2,617

There was no arrangement under which a director waived or agreed to waive any remuneration for the year (2007: Nil). 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 year (2007: Nil)

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2007: three) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining two (2007: two) non-directors, highest paid employees for the year are as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	–	526
Employee share – based compensation	956	–
Pension scheme contributions	–	21
	956	547

The number of non-directors, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
Band	**2008**	**2007**
Nil to HK$1,000,000	2	2

During the year, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: Nil).

There was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration during the year (2007: Nil).

13. TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. In prior year, no provision for Hong Kong profits tax has been made in the financial statements as the Group did not have any assessable income arising in Hong Kong.

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

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Current year provision		
Hong Kong profits tax	44	–
PRC enterprise income tax	–	3,434
Overprovision in prior year	(3,736)	–
Deferred tax – *note 37*	33	–
Tax charge/(credit) for the year	(3,659)	3,434
Attributable to:		
Continuing operation	77	–
Discontinued operations – *note 15*	(3,736)	3,434
	(3,659)	3,434

In May 2008, Jinan Shiji Jiangshan Resource Recycling Technology Limited ("Shiji Jiangshan"), a 51% owned subsidiary of the Company, has been granted an exemption of PRC enterprise income tax by the Tax Bureau in the PRC. Shiji Jiangshan is not subject to PRC enterprise income tax for the year ended 31 December 2007 and 31 December 2008. Hence, the overprovision in prior year was credited to the income statement during the year.

There are no material unprovided deferred tax assets and liabilities at the year end date (2007: Nil).

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Profit/(loss) before tax	(74,064)	4,140
Tax at the statutory rate of 16.5% (2007: 17.5%)	(12,220)	724
Effect of different tax rates in other jurisdictions	–	645
Expenses not deductible for tax	10,791	2,127
Income not subject to tax	(931)	(415)
Temporary differences not recognised	(19)	8
Tax losses not recognised	2,430	345
Overprovision in prior year	(3,736)	–
Loss attributable to associates	4	–
Others	22	–
Tax charge/(credit) at effective rate	(3,659)	3,434

Details of movement of the Group's deferred tax are set out in note 37 to the financial statements.

14. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$61,839,000 (2007: HK$4,454,000) which has been dealt with in the financial statements of the Company.

15. DISCONTINUED OPERATIONS

Disposal of the water supply business

On 21 April 2008, the Group through its wholly-owned subsidiary, Rise Assets Limited ("Rise Assets"), entered into an agreement with an independent third party in relation to the disposal of 100% equity interest in Proud Dragon Limited ("Proud Dragon") for a total consideration of HK$50,000,000. Proud Dragon indirectly held 70% interests of Dang Tu Xian Zhong Tian Water Supply Limited ("Zhong Tian"), which was engaged in the management of water plant and provision of water supply services and was a separate business segment operated in the People's Republic of China. This transaction was completed on 23 May 2008.

Disposal of the organic fertilizers business

On 24 September 2008, Rise Assets disposed of 100% equity interest in Silky Sky Investments Limited ("Silky Sky"), which indirectly held 51% interests of Jinan Shiji Jiangshan Resources Recycling Technology Limited ("Shiji Jiangshan"). Shiji Jiangshan was engaged in production and distribution of organic fertilizers, which was a separate business segment operated in the People's Republic of China. This transaction was completed on 24 September 2008.

Disposal of the server-based technology business

On 5 December 2008, the Company and Mr. Mo Wai Ming, Lawrence, an executive director of the Company, entered into an agreement relating to the disposal of the Group's server-based technology business, which involves the provision of language communication software and platforms in Hong Kong. The Group had subsequently completed the disposal on 19 January 2009. On initial reclassification of these operations as held for sale, the Group has not recognised any impairment losses.

The combined results of the above mentioned discontinued operations (i.e. the water supply, organic fertilizers and server-based technology businesses) included in the consolidated income statement and the consolidated cash flow statement are presented below:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Turnover	9,059	21,238
Cost of sales	(4,671)	(6,768)
Other revenue	1,023	2,446
Gain on disposal of operations	5,549	–
Expenses	(56,128)	(9,070)
Profit/(loss) before tax	(45,168)	7,846
Tax	3,736	(3,434)
Minority interests	4,367	(3,176)
Profit/(loss) for the year from discontinued operations	(37,065)	1,236
Cash flows from discontinued operations:		
Net cash flows from operating activities	(16,009)	11,476
Net cash flows from investing activities	(1,806)	(10,196)
Net cash flows from financing activities	(452)	13,419
Net cash inflows/(outflows)	(18,267)	14,699

The server-based technology business has been classified and accounted for at 31 December 2008 as a disposal group held for sale (see note 16).

16. NON-CURRENT ASSETS HELD FOR SALE

	2008	**2007**
	HK$'000	*HK$'000*
Assets related to the server-based technology business	2,324	–
Liabilities associated with assets held for sale	6,067	–

As described in note 15, the Group planned to dispose of its server-based technology business and the disposal was completed on 19 January 2009. The major classes of assets and liabilities comprising the operations classified as held for sale at the balance sheet date are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Property, plant and equipment	118	–
Inventories	37	–
Trade and other receivables	1,923	–
Due from a director	7	–
Cash and bank balances	239	–
Assets of server-based technology business classified as held for sale	2,324	–
Trade and other payables	(4,772)	–
Financial assistance from government	(1,295)	–
Liabilities of server-based technology business associated with assets classified as held for sale	(6,067)	–
Net liabilities of server-based technology business classified as held for sale	(3,743)	–
Exchange reserve of the disposal group	69	–

17. DIVIDEND

The directors of the Company do not recommend the payment of a dividend for the year (2007: Nil).

18. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008	**2007**
	HK$'000	*HK$'000*
For continuing and discontinued operations		
Loss attributable to equity holders of the Company	(66,159)	(2,470)
For continuing operation		
Loss attributable to equity holders of the Company	(29,094)	(3,706)

	Number of shares	
	2008	**2007**
Shares		
Weighted average number of ordinary shares in issuing during the year	1,330,375,080	907,881,918

Diluted loss per share is not presented as the share options and convertible notes had anti-dilutive effects on the basic loss per share.

19. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Plant and machinery	Water pipelines	Furniture, fixtures and office equipment	Motor vehicles	Computer equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:									
At 1 January 2007	–	176	–	–	315	–	871	–	1,362
Arising on acquisition of subsidiaries	–	–	–	–	–	–	–	221	221
Additions	–	236	8,323	–	295	–	38	–	8,892
Transfers	–	–	209	–	–	–	–	(209)	–
Exchange realignment	–	–	–	–	1	–	–	10	11
At 31 December 2007 and at 1 January 2008	–	412	8,532	–	611	–	909	22	10,486
Arising on acquisition of subsidiaries	10,336	–	19,521	29,252	259	693	351	–	60,412
Additions	549	62	560	239	63	320	9	4	1,806
Disposal of subsidiaries	(10,885)	(250)	(28,773)	(29,491)	(568)	(1,013)	–	(3)	(70,983)
Assets written off	–	(176)	(376)	–	(53)	–	–	–	(605)
Transfers	–	–	24	–	–	–	–	(24)	–
Exchange realignment	–	14	512	–	18	–	–	1	545
Reclassified as held for sale	–	(62)	–	–	(320)	–	(929)	–	(1,311)
At 31 December 2008	–	–	–	–	10	–	340	–	350

Group

	Buildings	Leasehold improvements	Plant and machinery	Water pipelines	Furniture, fixtures and office equipment	Motor vehicles	Computer equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation:									
At 1 January 2007	–	124	–	–	264	–	816	–	1,204
Depreciation provided during the year	–	52	70	–	53	–	37	–	212
At 31 December 2007 and at 1 January 2008	–	176	70	–	317	–	853	–	1,416
Arising on acquisition of subsidiaries	57	–	535	1,317	18	3	74	–	2,004
Depreciation provided during the year	122	29	1,306	976	79	53	100	–	2,665
Disposal of subsidiaries	(179)	(24)	(1,886)	(2,293)	(99)	(56)	–	–	(4,537)
Assets written off	–	(176)	(29)	–	(11)	–	–	–	(216)
Exchange realignment	–	1	4	–	2	–	–	–	7
Reclassified as held for sale	–	(6)	–	–	(299)	–	(888)	–	(1,193)
At 31 December 2008	–	–	–	–	7	–	139	–	146
Net book value:									
At 31 December 2008	–	–	–	–	3	–	201	–	204
At 31 December 2007	–	236	8,462	–	294	–	56	22	9,070

20. PREPAID LAND LEASE PAYMENTS

	Group 2008	2007
	HK$'000	*HK$'000*
Carrying amount at 1 January	–	–
Acquisition of subsidiaries	744	–
Amortisation during the year	(9)	–
Disposal of a subsidiary	(735)	–
Carrying amount at 31 December	–	–

21. INTERESTS IN SUBSIDIARIES

	Company 2008	2007
	HK$'000	*HK$'000*
Unlisted shares, at cost	3,162	3,162
Impairment in value	(2,162)	(3,162)
	1,000	–
Due from subsidiaries	124,000	90,575
Impairment in value	(64,500)	(22,604)
	59,500	67,971
	60,500	67,971

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts are not expected to be realised in the next twelve months from the balance sheet date. None of the subsidiaries had any debt capital outstanding at the end of the year or any time during the year. The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct (%)	Indirect (%)	Principal activities	Place of operations
KanHan Technologies Inc.[1]	British Virgin Islands	US$116,225	100	–	Investment holding	Hong Kong
KanHan Technologies Limited[1]	Hong Kong	HK$200,000	–	100	Provision of communication software platforms	Hong Kong
China Rise Investment Limited[1]	Hong Kong	HK$1	–	100	Investment holding	Hong Kong
KanHan Technologies China Limited[1]	The People's Republic of China	HK$1,000,000	–	100	Provision of communication software platforms	The People's Republic of China
Rise Assets Limited	British Virgin Islands	US$1	100	–	Investment holding	Hong Kong
Silky Sky Investments Limited[2]	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong
Sky Rich Limited[2]	Hong Kong	HK$1	–	100	Investment holding	Hong Kong
Jinan Shiji Jiangshan Resource Recycling Technology Limited[2]	The People's Republic of China	RMB30,000,000	–	51	Production and distribution of organic fertilizers	The People's Republic of China
Pharmanet Asia Limited	Hong Kong	HK$1	–	100	Dormant	Hong Kong
Proud Dragon Limited[3]	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct *(%)*	Indirect *(%)*	Principal activities	Place of operations
Jetrise Development Limited[3]	Hong Kong	HK$1	–	100	Investment holding	Hong Kong
Dang Tu Xian Zhong Tian Water Supply Limited[3]	The People's Republic of China	RMB21,430,000	–	70	Management of water plants and provision of water supply services	The People's Republic of China
Cheer Plan Limited[4]	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong
Wonder Link Limited[4]	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong
Start Bright Limited[4]	British Virgin Islands	US$200	–	51	Investment holding	Hong Kong
Palm Learning Company Limited[4]	Hong Kong	HK$1	–	51	Dormant	Hong Kong
Huge Step Management Limited[4]	British Virgin Islands	US$100	–	51	Investment holding	Hong Kong
Smart Education Company Limited[4]	Hong Kong	HK$100	–	51	Development and provision of e-Learning business	Hong Kong

1 These companies were disposed of subsequently on 19 January 2009.

2 These companies were acquired during the year ended 31 December 2007 and disposed of during the year.

3 These companies were acquired and disposed of during the year.

4 These companies were acquired during the year.

22. INTERESTS IN ASSOCIATES

	Group 2008 HK$'000	2007 HK$'000
Share of net assets	5,120	–
Goodwill	60,108	–
	65,228	–

Particulars of the associates of the Company are as follows:

Name of associate	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity indirectly attributable to the Company (%)	Principal activities	Place of operations
Far Glory Limited	British Virgin Islands	US$10,900	20.26	Investment holding	Hong Kong
Great Wave Limited	British Virgin Islands	US$1	20.26	Investment holding	Hong Kong
Sky Asia Investments Limited	Hong Kong	HK$1	20.26	Investment holding	Hong Kong
Beijing LianYiHuiZhong Technology Company Limited	The People's Republic of China	HK$2,000,000	20.26	Distribution of copyright protection items and other entertainment related business	The People's Republic of China

The financial statements of the above associates are coterminous with those of the Group.

On 14 April 2008, Cheer Plan Limited ("Cheer Plan"), a wholly-owned subsidiary of the Company, entered into an agreement with Far Glory Limited ("Far Glory"). Pursuant to the agreement, 900 new shares (the "Subscription Shares") of Far Glory was alloted to Cheer Plan at a consideration of HK$20,250,000. The Subscription Shares represent approximately 8.26% of the entire issued share capital of Far Glory as enlarged by the allotment and issue of the Subscription Shares. The completion took place on 21 April 2008 and the consideration for the Subscription Shares was settled by cash.

On 5 May 2008, Cheer Plan entered into another agreement with Mr. Hsu Tung Chi, as vendor and Mr. Hsu Tung Sheng, as guarantor, both are shareholders of Far Glory, to acquire additional 12% of the issued share capital of Far Glory at a maximum total consideration of HK$45,000,000, of which HK$5,000,000 to be settled by cash and HK$40,000,000 by issue of convertible notes. The completion took place on 20 June 2008.

Far Glory will conduct its business through two wholly foreign owned enterprises, namely Beijing LianYiHuiZhong Technology Company Limited (北京聯易匯眾科技有限公司) ("BLTC") and Beijing YiLaiShen Technology Company Limited (北京易來申科技有限公司) ("Beijing e-License"). BLTC is 100% owned by Far Glory and will be principally engaged in the distribution of copyright protected items (such as on-line entertainment and media related items) and other entertainment related business in the PRC. Beijing e-License is 50% beneficially owned by Far Glory and will be principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items in the PRC.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	As at 31 December 2008
	HK$'000
Assets	25,318
Liabilities	(47)
Revenues	159
Loss	(107)

Impairment test on goodwill

The Group appointed a professional valuer to perform an appraisal of the market value of the 20.26% equity interest in Far Glory as at 31 December 2008. The recoverable amount has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 10.5-year period together with the terminal value at the end of the period, and discount rate of 12.67%. Cash flows beyond the 10.5-year period has been extrapolated using a 3% long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The value in use calculated by using the discount rate is higher than the carrying amount of the associates, accordingly, there is no impairment of the goodwill during the year.

23. GOODWILL

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group
	HK$'000
At 1 January 2007	–
Arising from acquisition of subsidiaries	51,207
At 31 December 2007 and 1 January 2008	51,207
Arising from acquisition of subsidiaries *(note 39)*	55,386
Impairment during the year	(36,000)
Disposal of subsidiaries *(note 40)*	(50,767)
At 31 December 2008	19,826
At 31 December 2008	
Cost	19,826
Accumulated impairment	–
Net carrying amount	19,826

Goodwill has been allocated to the Group's cash generating units ("CGU") identified according to the country of operation and business segment as follows:

	2008	2007
	HK$'000	*HK$'000*
Production and distribution of organic fertilizers, Mainland China	–	51,207
e-Learning business, Hong Kong	19,826	–
	19,826	51,207

Impairment test on goodwill

The recoverable amounts of the CGUs are determined based on value-in-use calculations using cash flow projections based on the financial budgets covering a ten-year period for CGU as approved by the directors. Cash flows beyond the ten-year period are extrapolated using the estimated rates stated below. The long-term growth rate does not exceed the respective long-term growth rate for the business in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	e-Learning business 2008
Gross margin	30% – 80%
Average growth rate	24% – 73%
Long-term growth rate	1% – 8%
Discount rate	10.5%

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 CGU.

Apart from the considerations described above in determining the value-in-use of CGU the Company's management is not aware of any other probable changes that would necessitate changes in the key assumptions.

The recoverable amounts of the CGU exceed their carrying amounts based on value-in-use calculations. Accordingly, the goodwill was not impaired during the year.

24. OTHER INTANGIBLE ASSETS

	Group Production technology *HK$'000*
Cost:	
At 1 January 2007	–
Additions	1,387
At 31 December 2007 and 1 January 2008	1,387
Exchange realignment	84
Disposal of subsidiaries	(1,471)
At 31 December 2008	–
Accumulated amortisation and impairment:	
At 1 January 2007, 31 December 2007 and 1 January 2008	–
Amortisation provided during the year	7
Impairment during the year	1,464
Disposal of subsidiaries	(1,471)
At 31 December 2008	–
Net carrying amount:	
At 31 December 2008	–
At 31 December 2007	1,387

25. INVENTORIES

	Group 2008 *HK$'000*	Group 2007 *HK$'000*
Raw materials	–	671
Work in progress	–	65
Finished goods	–	317
	–	1,053

No inventories were carried at net realisable value as at 31 December 2008 (2007: Nil).

26. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	731	5,167	–	–
Deposits, prepayments and other receivables	742	13,405	241	550
Deposit paid for acquisition of subsidiaries	–	6,200	–	–
	1,473	24,772	241	550

The aged analysis of the Group's trade receivables at the balance sheet date is as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
0 – 30 days	589	4,688
31 – 60 days	4	312
61 – 90 days	97	167
Over 90 days	41	–
	731	5,167

Included in the Group's trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Renminbi	–	16,337

27. DUE FROM A DIRECTOR

Particulars of the amount due from a director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Group and Company		
	Balance at 31 December 2008	**Balance at 1 January 2008**	**Maximum outstanding during the year**
	HK$'000	*HK$'000*	*HK$'000*
Name of director			
Miss Au Shui Ming, Anna	27*	–	27

The amount due from a director is unsecured, interest-free and has no fixed terms of repayment.

* Included amount due from a director of HK$7,000 that classified as held for sale.

28. TRADE AND OTHER PAYABLES

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	2,090	–	–
Deferred income	1,607	1,727	–	–
Accrued liabilities and other payables	809	4,996	692	818
	2,416	8,813	692	818

An aged analysis of the Group's trade payables as at the balance sheet date is as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
0 – 30 days	–	1,667
31 – 60 days	–	46
61 – 90 days	–	316
Over 90 days	–	61
	–	2,090

Included in the Group's trade and other payable are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Renminbi	–	3,682

29. FINANCIAL ASSISTANCE FROM GOVERNMENT

The Innovation and Technology Fund ("ITF") of the Hong Kong Special Administrative Region government has provided financial assistance to the Group to assist in a specific product development. The funding is unsecured, non-interest bearing and repayable to ITF when revenue is generated from the specific product. The amount repaid, if any, will be in stages and calculated with reference to the revenue generated and received.

In the opinion of the directors, HK$333,000 (2007: HK$268,000) will be repayable to the ITF within the next twelve months from 31 December 2008 by reference to the forecast revenue generated to be from the specific product. Accordingly, HK$333,000 (2007: HK$268,000) has been classified as current liabilities and the remaining balance of HK$962,000 (2007: HK$1,027,000) is classified as non-current liabilities.

The financial assistance from government was reclassified as liabilities associated with assets held for sale at the balance sheet date.

30. PROMISSORY NOTE

	Group	**Company**
	HK$'000	*HK$'000*
At 1 January 2007	–	–
Issued during the year	21,467	–
Repaid during the year	(17,000)	–
At 31 December 2007 and 1 January 2008	4,467	–
Issued during the year	22,840	22,840
Repaid during the year	(23,567)	(19,100)
At 31 December 2008	3,740	3,740

The promissionary note issued in 2007 relating to acquisition of a subsidiary was fully repaid during the year.

On 6 February 2008, a promissory note with principal amount of HK$15,600,000 was issued by the Company upon the completion of the acquisition of 100% equity interest in Proud Dragon as partial consideration. This promissory note is interest bearing at 1% per annum and has a fixed term of three years from the date of issue. This promissory note was fully repaid during the year.

On 24 June 2008, another promissory note with principal amount of HK$7,240,000 was issued by the Company as partial consideration for the acquisition of 51% equity interest in Start Bright Limited. This promissory note is interest bearing at 1% per annum and has a fixed term of three years from the date of issue. Up to the balance sheet date, HK$3,500,000 was repaid.

31. CONVERTIBLE NOTE

(a) On 6 February 2008, the Company has issued a convertible note with principal amount of HK$10,000,000, carrying interest rate of 1% per annum, to an independent vendor as partial consideration of the acquisition of 100% equity interest in Proud Dragon Limited. This convertible note was fully repaid upon disposal of Proud Dragon during the year.

(b) On 24 June 2008, upon the completion of acquisition of 51% equity interest in Start Bright Limited, the Company has issued a 1% convertible note with a nominal value of HK$3,000,000 to the independent vendor as part of the consideration.

The bondholder may covert the whole or part (in multiples of HK$1,000,000) of the convertible bond into shares at conversion price of HK$0.18, subject to adjustments, for the period commencing from (1) the date when the Guaranteed Profit (<i> the actual audited consolidated net profit after tax and extraordinary or exceptional items of Start Bright Limited and its subsidiaries for the year ending 31 August 2009 ("Actual Profit") will not be less than HK$3,000,000, or <ii> provided that the Actual Profit is equal to or greater than HK$2,000,000 but less than HK$3,000,000, the average of the actual audited consolidated net profits after tax and extraordinary or exceptional items of Start Bright Limited and its subsidiaries for the years ending 31 August 2009 and 2010 ("Average Actual Profit") will not be less than HK$3,000,000) has been fulfilled or (2) if there is any shortfall between the Actual Profit or the Average Actual Profit and Guaranteed Profit, the date when the Company is fully compensated for any shortfall up to the maturity date.

(c) Upon completion of the acquisition of 12% equity interest in Far Glory on 20 June 2008, the Company had issued 1% convertible notes with nominal values of HK$18,000,000 (the "First Convertible Note") and HK$4,000,000 (the "Second Convertible Note"), respectively.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the First Convertible Bond of HK$18,000,000, which had been delivered to the vendor upon completion, into shares at conversion price of HK$0.18, subject to adjustments, from the date of issue up to the maturity date. The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the Second Convertible Bond of HK$4,000,000, which had been delivered to the Group upon completion as escrow until the fulfillment of the Average Guaranteed Profit (the average of the audited consolidated net profits after tax and extraordinary or exceptional items of Far Glory and its subsidiaries for the years ending 31 December 2009 and 2010 will not be less than HK$15,000,000), into shares at conversion price of HK$0.18, subject to adjustments, for the period commencing from (1) the date when the Average Guaranteed Profit has been fulfilled or (2) if there is any shortfall between the actual average of the audited consolidated net profits after tax and extraordinary or exceptional items of Far Glory and its subsidiaries for years ending 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.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible notes. The fair value of the liability component was calculated using a market interest rate of 5%. The residual amount, representing the value of the equity conversion component, has been included in the convertible notes reserve.

The convertible notes recognised in the balance sheet date are calculated as follows:

	Group and Company	
	2008	2007
	HK$'000	*HK$'000*
Liability component at 1 January	–	–
Face value of convertible notes issued	35,000	–
Equity component	(3,453)	–
Liability component at the issuance date	31,547	–
Redemption during the year	(9,383)	–
Interest expense	718	–
Interest paid/payable	(147)	–
Liability component at 31 December	22,735	–
Portion classified as non-current	22,735	–
Current portion	–	–
Equity component at 1 January	–	–
Convertible notes issued during the year	3,453	–
Redemption during the year	(617)	–
Equity component at 31 December	2,836	–

32. OTHER PAYABLES

Included in the other payables, HK$18,000,000 represents the partial consideration for the acquisition of 12% equity interest in Far Glory Limited, which is extra convertible note that shall be issued by the Company if the Average Actual Profit of Far Glory Limited and its subsidiaries is not less then HK$25,000,000. This amount is unsecured, interest-free and shall be payable by the Company after the year ended 31 December 2010. For details of such convertible note, please refer to the circular of the Company dated 30 May 2008.

The remaining HK$8,160,000 represents the partial consideration for the acquisition of 51% equity interest in Start Bright Limited, which is earn out convertible note that shall be issued by the Company if the Actual Profit of Start Bright Limited and its subsidiaries is equal to or more than HK$5,000,000, or provided that the Actual Profit is equal to or greater than HK$4,000,000 but less than HK$5,000,000 and the Average Actual Profit is equal to or greater than HK$5,000,000. This amount is unsecured, interest-free and shall be payable by the Company after the year ended 31 August 2009. For details of such earn out convertible note, please refer to the circular of the Company dated 23 June 2008.

For details of the acquisitions, please refer to note 39 to the financial statements.

33. SHARE CAPITAL

	Notes	Number of shares	Amount HK$'000
Authorised:			
At 1 January 2007, 31 December 2007 and 31 December 2008, ordinary shares of HK$0.05 each		2,000,000,000	100,000
Issued and fully paid:			
At 1 January 2007, ordinary shares of HK$0.05 each		589,966,720	29,498
Issue of consideration shares	*(a)*	135,750,000	6,788
Shares issued upon exercise of share options	*(b)*	43,400,000	2,170
Shares issued upon exercise of warrants	*(c)*	117,800,000	5,890
Open offer	*(d)*	443,458,360	22,173
At 31 December 2007 and 31 December 2008, ordinary shares of HK$0.05 each		1,330,375,080	66,519

Notes:

(a) On 15 May 2007, 135,750,000 ordinary shares of the Company were issued at an issue price of HK$0.125 per share to Mr. Yang Pei Gen as part of the consideration of HK$61 million for acquisition of 100% equity interest in Silky Sky Investments Limited.

(b) Details of the Company's share option scheme and the movements of share options under the scheme are included in note 35 to the financial statements.

(c) During the year ended 31 December 2007, registered holders of 117,800,000 warrants exercised their rights to subscribe for 117,800,000 ordinary shares at a consideration of HK$18.26 million of which HK$5.89 million was credited to share capital and the balance of HK$12.37 million was credited to the Company's share premium account.

(d) On 14 December 2007, a total number of 443,458,360 shares at a price of HK$0.08 per share were issued via open offer on the basis of one offer share for every two shares held by existing shareholders. The Company raised proceeds of approximately HK$34.5 million, net of issuing expenses, to finance the acquisition of 100% equity interest in Proud Dragon Limited on 6 February 2008.

All shares issued in 2007 rank pari passu with the existing shares in all respects.

34. RESERVES

Company

	Share premium HK$'000	Contribution surplus HK$'000	Warrant subscription reserve HK$'000	Employee share-based compensation reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	22,821	3,047	1,469	2,314	–	(34,595)	(4,944)
Issue of shares on open offer	13,304	–	–	–	–	–	13,304
Issue of consideration shares	10,181	–	–	–	–	–	10,181
Share/warrant issue expenses	(978)	–	–	–	–	–	(978)
Shares issued upon exercise of share options	9,695	–	–	(2,931)	–	–	6,764
Shares issued upon exercise of warrants	13,838	–	(1,469)	–	–	–	12,369
Employee share-based compensation	–	–	–	617	–	–	617
Loss for the year	–	–	–	–	–	(4,454)	(4,454)
At 31 December 2007	68,861	3,047	–	–	–	(39,049)	32,859
At 1 January 2008	68,861	3,047	–	–	–	(39,049)	32,859
Issue of convertible bonds	–	–	–	–	3,453	–	3,453
Redemption of convertible note	–	–	–	–	(617)	–	(617)
Share issue expenses	(253)	–	–	–	–	–	(253)
Open offer expenses	(505)	–	–	–	–	–	(505)
Employee share-based compensation	–	–	–	4,354	–	–	4,354
Loss for the year	–	–	–	–	–	(61,839)	(61,839)
At 31 December 2008	68,103	3,047	–	4,354	2,836	(100,888)	(22,548)

(a) The contributed surplus of the Company arose from the Group Reorganisation which took place on 15 January 2003. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' fund of KanHan (BVI).

(b) Employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation as described in note 4 to the financial statements.

(c) The Company did not have reserves available for distribution to shareholders as at 31 December 2008 (2007: Nil).

35. SHARE OPTION SCHEME

On 24 January 2003, a share option scheme was adopted by the Company pursuant to a written resolution of the Company (the "Scheme").

The purpose of the Scheme is to provide eligible employees with performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership. The Board may, at its discretion, invite any full-time employee of the Company, including any executive and non-executive directors of the Company, or any subsidiaries of the Company to take up options to subscribe for shares of the Company. The total number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the Scheme and any other share option scheme adopted by the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

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

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.

Movements in the number of share options outstanding during the year are as follows:

		Number of options	
	Notes	**2008**	**2007**
At 1 January		–	19,400,000
Granted during the year	*(i)*	103,600,000	24,000,000
Exercised during the year		–	(43,400,000)
Lapsed during the year	*(ii)*	(36,300,000)	–
At 31 December		67,300,000	–

Notes:

(i) On 21 December 2007, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1 for each lot of share options to subscribe for an aggregate of 48,600,000 shares under the Scheme at an exercise price of HK$0.151 per share. These options were accepted by the option holders in January 2008.

On 28 August 2008, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1 for each lot of share options to subscribe for an aggregate of 55,000,000 shares under the Scheme at an exercise price of HK$0.101 per share.

(ii) During the year, 36,300,000 share options were lapsed due to resignation of certain employees.

Details of share options granted:

Categories of grantees	Date of grant	Exercise period	Exercise price per share	Number of options	
			HK$	**2008**	**2007**
Directors	13/2/2007	13/2/2007 – 12/2/2017	0.190	–	4,000,000
	14/8/2007	14/8/2007 – 13/8/2017	0.205	–	20,000,000
	21/12/2007	18/1/2008 – 20/12/2017	0.151	12,300,000	–
	28/8/2008	16/9/2008 – 27/8/2018	0.101	24,000,000	–
Employees	21/12/2007	18/1/2008 – 20/12/2017	0.151	36,300,000	–
	28/8/2008	16/9/2008 – 27/8/2018	0.101	31,000,000	–
				103,600,000	24,000,000
Options held by employees lapsed			0.151	(36,300,000)	–
				67,300,000	24,000,000

Date of grant	Exercise period	Exercise price	Fair value at grant date
		HK$	*HK$*
13/2/2007	13/2/2007 – 12/2/2017	0.190	0.0336
14/8/2007	14/8/2007 – 13/8/2017	0.205	0.0241
21/12/2007	18/1/2008 – 20/12/2017	0.151	0.0531
28/8/2008	16/9/2008 – 27/8/2018	0.101	0.0323

The Binomial model has been used to estimate the fair value of the options. The variances and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Inputs to the model are as follows:

	Date of grant			
	13/2/2007	**14/8/2007**	**21/12/2007**	**28/8/2008**
Share price at grant date	0.190	0.205	0.151	0.100
Exercise price	0.190	0.205	0.151	0.101
Option life	10 Years	10 Years	10 Years	10 Years
Expected volatility	40.000%	24.000%	67.285%	62.695%
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	4.600%	4.600%	3.332%	3.000%

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.

36. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("Scheme") for all its qualifying employees. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. Both the Group and each eligible employee contribute the lower of 5% or HK$1,000 of the relevant payroll costs to the Scheme.

37. DEFERRED TAX

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

	Accelerated tax allowance *HK$'000*
At 1 January 2007, 31 December 2007 and 1 January 2008	–
Deferred tax charged to income statement during the year	33
At 31 December 2008	33

(b) Unrecognised deferred tax assets arising from:

	2008 *HK$'000*	**2007** *HK$'000*
Deductible temporary differences	–	92
Tax losses	33,881	33,326
	33,881	33,418

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items due to the unpredictability of future profit streams.

38. OPERATING LEASE ARRANGEMENTS

The Group leases certain premises under operating lease arrangements. Leases for premises are negotiated for terms ranging from 1 to 2 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008 *HK$'000*	**2007** *HK$'000*
Within one year	527	1,364
In the second to fifth years, inclusive	300	1,808
After five years	–	1,915
	827	5,087

39. ACQUISITION OF SUBSIDIARIES

(a) On 29 October 2007, Rise Assets, a wholly-owned subsidiary of the Company, entered into an agreement with Proud Dragon Limited ("Proud Dragon") and Mr. Yip Yuk Tong in relation to the acquisition of the equity interest held by Mr. Yip Yuk Tong in Proud Dragon and subscription of shares of Proud Dragon with a consideration of HK$47,600,000.

Proud Dragon was holding the entire issued capital of Jetrise Development Limited, which holds 70% equity interests in 當涂縣中天供水有限公司 ("Zhong Tian Water Supply"). Zhong Tian Water Supply was incorporated in the People's Republic of China ("PRC") and its principal activities are the management of water plants and the provision of water supply in the rural areas of the PRC.

The acquisition consideration was settled by cash of HK$6,200,000, issue of HK$10,000,000 convertible note and issue of HK$15,600,000 promissory note. The subscription consideration was settled by cash of HK$15,800,000. The acquisition and subscription were completed on 6 February 2008.

(b) The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Fair value recognised on acquisition *HK$'000*
Property, plant and equipment	58,131
Prepaid land lease payments	744
Goodwill	3,725
Trade and other receivables	1,775
Cash and bank balances	18,887
Trade and other payables	(37,083)
Deferred government grants	(24,946)
Minority interests	(5,468)
Net assets acquired	15,765
Goodwill on acquisition	31,835
	47,600
Satisfied by:	
Cash consideration	22,000
Promissory note	15,600
Convertible note	10,000
	47,600

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	22,000
Cash and bank balances acquired	(18,887)
Net outflow of cash and cash equivalents	3,113

(c) On 2 June 2008, Wonder Link Limited ("Wonder Link"), a wholly-owned subsidiary of the Company, entered into an agreement with Mr. Liu Zong Hong to acquire the 51% equity interest of Start Bright Limited ("Start Bright") with a maximum consideration of HK$20,400,000.

Start Bright has two wholly-owned subsidiaries, Huge Step Management Limited and Palm Learning Company Limited, which were both incorporated in Hong Kong. Huge Step Management Limited holds 100% equity interests in Smart Education Company Limited, which was also incorporated in Hong Kong with principal activities of development and provision of e-Learning programs.

The consideration was settled by cash of HK$2,000,000, issue of HK$11,160,000 convertible note and issue of HK$7,240,000 promissory note. Completion of the acquisition took place on 24 June 2008.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Fair value recognised on acquisition *HK$'000*
Property, plant and equipment	277
Trade and other receivables	125
Cash and bank balances	966
Accrued liabilities and other payables	(243)
Minority interests	(551)
Net assets acquired	574
Goodwill on acquisition	19,826
	20,400
Satisfied by:	
Cash consideration	2,000
Promissory note	7,240
Convertible note	11,160
	20,400

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	2,000
Cash and bank balances acquired	(966)
Net outflow of cash and cash equivalents	1,034

40. DISPOSAL OF SUBSIDIARIES

(a) On 21 April 2008, Rise Assets disposed of its entire interest in Proud Dragon to an independent third party at a consideration of HK$50,000,000. The disposal of Proud Dragon and its subsidiaries was completed on 23 May 2008.

	HK$'000
Net assets disposed of:	
Property, plant and equipment	57,680
Prepaid land lease payments	735
Goodwill	3,725
Inventories	17
Trade and other receivables	2,291
Cash and cash equivalents	15,875
Trade and other payables	(37,513)
Deferred government grants	(24,672)
Minority interests	(4,544)
Net assets value	13,594
Attributable goodwill	31,835
	45,429
Gain on disposal	4,571
Consideration	50,000
Satisfied by:	
Cash	19,500
Promissory note	30,500
	50,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Proud Dragon and its subsidiaries is as follows:

	HK$'000
Cash consideration	19,500
Cash and bank balances in subsidiaries disposed of	(15,875)
Net inflow of cash and cash equivalents	3,625

(b) On 7 July 2008, the Group entered into an agreement with an independent third party in relation to the disposal of 100% equity interest in Silky Sky for a total consideration of HK$15,000,000. The disposal of Silky Sky and its subsidiaries was completed on 24 September 2008.

	HK$'000
Net assets disposed of:	
Property, plant and equipment	8,766
Inventories	1,754
Trade and other receivables	19,718
Cash and cash equivalents	2,915
Trade and other payables	(16,939)
Minority interests	(15,658)
Net assets value	556
Release of exchange reserve	(1,741)
Attributable goodwill	15,207
	14,022
Gain on disposal	978
Consideration	15,000
Satisfied by:	
Cash	8,000
Promissory note	7,000
	15,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Silky Sky is as follows:

	HK$'000
Cash consideration	8,000
Cash and bank balances in subsidiaries disposed of	(2,915)
Net inflow of cash and cash equivalents	5,085

41. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2008, the Company and the Group had no significant contingent liabilities or capital commitments.

42. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, the Company entered into an agreement with Mr. Mo Wai Ming, Lawrence, an executive director of the Company, on 5 December 2008, for the disposal of the entire equity interest in KanHan Technologies Inc., a subsidiary of the Company, at a consideration of HK$1,000,000. The transaction was completed on 19 January 2009. As at 31 December 2008, HK$200,000 was received as deposit and included in accrued liabilities and other payables.

43. FINANCIAL INSTRUMENTS

Categories of financial instruments

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	15,367	66,001
Financial liabilities		
Amortised cost	47,415	11,553

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to credit risk, liquidity risk and market risk arising in the normal course of its business and financial instruments. The Group's risk management objectives, policies and processes mainly focus on minimizing the potential adverse effects of these risks on its financial performance and position by closely monitoring the individual exposure.

(a) Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amount of the respective recognised financial assets as stated in the balance sheet. The Group's credit risk is primarily attributable to trade and other receivables and bank balances. It sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit. The management of the Group reviews the recoverable amount of each individual trade receivable and other receivable regularly at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regards, the management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Credit risk is concentrated to a small number of debtors principally located in the PRC. The management has considered the good creditability of the debtors and is of the view that, there is no significant credit risk on these receivables.

(b) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2008						
Trade payables	259	–	–	–	–	259
Accrued liabilities and other payables	2,481	200	–	18,000	–	20,681
Promissory note	–	–	–	3,740	–	3,740
Convertible notes	–	–	–	22,735	–	22,735
	2,740	200	–	44,475	–	47,415
31 December 2007						
Trade payables	61	2,029	–	–	–	2,090
Accrued liabilities and other payables	4,941	–	–	55	–	4,996
Promissory note	–	–	–	4,467	–	4,467
	5,002	2,029	–	4,522	–	11,553

(c) Market risk

(i) Interest rate risk

The Group's exposure to cash flow interest rate risk mainly arises from the fluctuation of the prevailing market interest rate on the bank balances. However, the management considers the Group's exposure to such interest rate risk is not significant as bank balances are all short-term in nature. No sensitivity analysis is prepared as the fluctuation and impact is considered immaterial.

(ii) Currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 40% (2007: 58%) of the Group's purchases are denominated in currencies other than the functional currency of the operating units, whilst approximately 32% (2007: 32%) of sales are denominated in the units' functional currency. The management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arises.

The following table demonstrates the sensitivity to a reasonably possible change in Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax and the Group's equity.

	Increase/ (decrease) in foreign exchange rate	**Increase/ (decrease) in loss before tax**	**Increase/ (decrease) in equity**
	%	*HK$'000*	*HK$'000*
31 December 2008			
RMB	10	(13)	13
RMB	(10)	13	(13)
31 December 2007			
RMB	10	970	1,776
RMB	(10)	(970)	(1,776)

(d) Fair value

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

45. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The capital structure of the Group consists of debts, which include the financial assistance from government, promissory note payable and convertible notes, cash and cash equivalents and issued share capital.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No change were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

The Group monitors capital using a gearing ratio, which is borrowings divided by total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio at the balance sheet date is as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Borrowings	52,635	4,467
Total equity	39,989	117,675
	132%	4%

46. POST BALANCE SHEET EVENTS

On 5 December 2008, the Company entered into an agreement with a director, Mo Wai Ming, Lawrence, for the disposal of the entire interest in KanHan Technologies Inc. at a consideration of HK$1,000,000. A deposit in the sum of HK$200,000 has been paid by Mr. Mo before the balance sheet date. The balance of the consideration of HK$800,000 was received upon completion on 19 January 2009.

47. COMPARATIVE

Certain comparatives are reclassified during the year to conform current year's presentation.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2009.

The following are the unaudited financial statements of the Group for the six months ended 30 June 2009 together with accompanying notes extracted from the 2009 Interim Report of the Company. References to page numbers in this appendix are to the pages numbers of the 2009 Interim Report of the Company.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

		Three months ended 30 June		Six months ended 30 June	
		2009	**2008**	**2009**	**2008**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*3*				
Continuing operations		982	–	1,919	–
Discontinued operations		–	3,268	173	5,515
		982	3,268	2,092	5,515
Cost of sales		(144)	(1,455)	(336)	(2,841)
Gross profit		838	1,813	1,756	2,674
Other revenues and gains		35	717	35	975
Research and development expenses		–	(263)	(47)	(474)
Selling and distribution expenses		–	(293)	(37)	(633)
Administrative expenses		(3,319)	(9,889)	(5,161)	(15,037)
Other expenses		–	(40,570)	–	(40,570)
Finance costs		(316)	(193)	(569)	(193)
Loss from operating activities		(2,762)	(48,678)	(4,023)	(53,258)
Gain on disposal of subsidiaries		–	4,556	4,703	4,556
Share of losses from associates		(21)	–	(38)	–
Profit (Loss) before taxation	*5*				
Continuing operations		(2,783)	(4,103)	(4,032)	(6,256)
Discontinued operations		–	(40,019)	4,674	(42,446)
		(2,783)	(44,122)	642	(48,702)

		Three months ended 30 June		Six months ended 30 June	
		2009	**2008**	**2009**	**2008**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Taxation	*6*				
Continuing operations		(73)	–	(150)	–
Discontinued operations		–	3,654	–	3,654
		(73)	3,654	(150)	3,654
Profit (Loss) for the period					
Continuing operations		(2,856)	(4,103)	(4,182)	(6,256)
Discontinued operations		–	(36,365)	4,674	(38,792)
		(2,856)	(40,468)	492	(45,048)
Attributable to:					
Equity holders of the Company		(3,036)	(37,947)	121	(41,871)
Minority interests		180	(2,521)	371	(3,177)
		(2,856)	(40,468)	492	(45,048)
Earnings (Loss) per share					
– Basic	*8*				
From continuing and discontinued operations		(0.22 cents)	(2.85 cents)	0.01 cents	(3.15 cents)
From continuing operations		(0.22 cents)	(0.31 cents)	(0.34 cents)	(0.47 cents)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2009

	Notes	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets		152	204
Interests in associates		65,212	65,228
Goodwill		19,826	19,826
		85,190	85,258
CURRENT ASSETS			
Trade and other receivables	9	1,997	1,473
Due from a director		20	20
Cash and bank balances		9,926	12,109
Assets of a disposal group classified as held for sale		–	2,324
		11,943	15,926
CURRENT LIABILITIES			
Other payables		834	2,416
Tax payable		194	44
Liabilities associated with assets classified as held for sale		–	6,067
		1,028	8,527
NET CURRENT ASSETS		10,915	7,399
TOTAL ASSETS LESS CURRENT LIABILITIES		96,105	92,657
NON-CURRENT LIABILITIES			
Other payables	10	26,160	26,160
Convertible notes	11	23,289	22,735
Promissory note	12	2,240	3,740
Deferred tax liabilities		33	33
		51,722	52,668
NET ASSETS		44,383	39,989
EQUITY			
Share capital		68,254	66,519
Reserves		(24,914)	(27,202)
		43,340	39,317
MINORITY INTERESTS		1,043	672
		44,383	39,989

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Share capital	Share premium	Special reserve	Convertible notes reserve	Exchange reserve	Employee share-based compensation reserve	Accumulated losses	Subtotal	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* (Note a)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008										
At 1 January 2008	66,519	68,861	10,084	–	543	–	(46,351)	99,656	18,019	117,675
Share issue expenses	–	(758)	–	–	–	–	–	(758)	–	(758)
Employee share-based compensation	–	–	–	–	–	626	–	626	–	626
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	6,019	6,019
Disposal of subsidiaries	–	–	–	–	–	–	–	–	(4,544)	(4,544)
Issue of convertible bonds	–	–	–	2,279	–	–	–	2,279	–	2,279
Exchange realignment	–	–	–	–	499	–	–	499	661	1,160
Loss for the period	–	–	–	–	–	–	(41,871)	(41,871)	(3,177)	(45,048)
At 30 June 2008	66,519	68,103	10,084	2,279	1,042	626	(88,222)	60,431	16,978	77,409
2009										
At 1 January 2009	66,519	68,103	10,084	2,836	(69)	4,354	(112,510)	39,317	672	39,989
Shares issued upon exercise of share options	1,735	1,469	–	–	–	(1,082)	–	2,122	–	2,122
Employee share-based compensation	–	–	–	–	–	1,711	–	1,711	–	1,711
Disposal of subsidiaries	–	–	–	–	69	–	–	69	–	69
Profit for the period	–	–	–	–	–	–	121	121	371	492
At 30 June 2009	68,254	69,572	10,084	2,836	0	4,983	(112,389)	43,340	1,043	44,383

Note:

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

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2009

	Six months ended 30 June 2009	Six months ended 30 June 2008
	HK$'000	*HK$'000*
Net cash (used in)/from operating activities	(4,858)	2,585
Net cash from/(used in) investing activities	971	(31,770)
Net cash outflow before financing activities	(3,887)	(29,185)
Net cash from/(used in) financing activities	1,704	(456)
Net decrease in cash and cash equivalents	(2,183)	(29,641)
Cash and cash equivalents at beginning of the period	12,109	48,287
Effect of exchange rate fluctuations, net	–	909
Cash and cash equivalents at end of the period	9,926	19,555

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 10 October 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The shares of the Company were listed on the GEM of the Stock Exchange on 25 February 2003.

The Group is principally engaged in the development and provision of on-line education programs, through its self-developed websites to provide languages (English and Chinese) and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau. The Group has also invested in copyright management and digital licensing business.

2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The measurement basis used in the preparation of these unaudited consolidated results is historical cost.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2008.

3. TURNOVER

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

	Three months ended 30 June		**Six months ended 30 June**	
	2009	**2008**	**2009**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
E-learning business	982	13	1,919	13
Discontinued operations				
Sales of licensed software	–	1,994	71	2,853
Software maintenance	–	353	78	641
Software rental and subscription income	–	153	18	240
Website development	–	108	–	358
Putonghua learning platform	–	219	6	449
Agriculture-related products	–	428	–	961
	982	3,268	2,092	5,515

4. SEGMENT INFORMATION

(a) Business segments

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

Six months ended 30 June

	Continuing operation		Discontinued operations					
	E-learning business		Server-based technology		Agriculture-related products		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to external customers	1,919	13	173	4,541	–	961	2,092	5,515
Segment results	1,670	11	86	3,093	–	(430)	1,756	2,674
Other revenue and gains							35	975
Research and development expenses							(47)	(474)
Selling and distribution expenses							(37)	(633)
Administrative expenses							(5,161)	(15,037)
Other expenses							–	(40,570)
Finance costs							(569)	(193)
Gain on disposal of subsidiaries							4,703	4,556
Share of losses from associates							(38)	–
Profit/(Loss) before tax							642	(48,702)
Tax							(150)	3,654
Profit/(Loss) for the period							492	(45,048)

As at 30 June

	Continuing operation		Discontinued operations					
	E-learning business		Server-based technology		Agriculture-related products		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets								
Segment assets	3,064	21,131	–	2,473	–	49,953	3,064	73,557
Unallocated assets							94,069	68,521
Total assets							97,133	142,078
Liabilities								
Segment liabilities	928	182	–	5,626	–	1,217	928	7,025
Unallocated liabilities							51,822	57,644
Total liabilities							52,750	64,669
Other segment information:								
Depreciation	59	2	6	28	–	2,286	65	2,316
Capital expenditure	7	–	–	6	–	1,438	7	1,444

(b) Geographical segments

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

	Six months ended 30 June,					
	Mainland China		Hong Kong		Consolidated	
	2009	2008	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	11	992	2,081	4,523	2,092	5,515
Other segment information:						
Segment assets	–	50,005	97,133	92,073	97,133	142,078
Capital expenditure	–	1,440	7	4	7	1,444

5. PROFIT (LOSS) BEFORE TAXATION

Profit (Loss) before taxation is stated after charging:

	Three months ended 30 June		Six months ended 30 June	
	2009	**2008**	**2009**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	30	1,341	65	2,316
Employee share-based payment	1,711	626	1,711	626
Impairment allowance on trade receivables	–	2,491	–	2,491

6. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Three months ended 30 June		Six months ended 30 June	
	2009	**2008**	**2009**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current year provision				
Hong Kong profits tax	(73)	–	(150)	–
Overprovision in prior year	–	3,654	–	3,654
Tax credit/(charge) for the period	(73)	3,654	(150)	3,654

In May 2008, a subsidiary of the Company has been granted an exemption of PRC enterprise income tax by the Taxation Bureau.

7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 30 June 2009 respectively (2008: Nil).

8. EARNINGS (LOSS) PER SHARE

Basis earnings (loss) per share is calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue.

	Three months ended 30 June		**Six months ended 30 June**	
	2009	**2008**	**2009**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For continuing and discontinued operations				
Profit (Loss) attributable to shareholders	(3,036)	(37,947)	121	(41,871)
For continuing operations				
Loss attributable to shareholders	(3,036)	(4,103)	(4,553)	(6,256)
	Number of shares			
Weighted average number of ordinary shares in issue	1,362,391,564	1,330,375,080	1,346,471,765	1,330,375,080

No diluted loss per share was presented as the exercise of the outstanding share options and the conversion of the convertible bonds of the Company are anti-dilutive.

9. TRADE AND OTHER RECEIVABLES

	30 June 2009	**31 December 2008**
	(Unaudited)	**(Audited)**
	HK$'000	*HK$'000*
Trade receivables	583	731
Deposits, prepayments and other receivables	1,414	742
	1,997	1,473

An ageing analysis of the trade receivables is as follows:

	30 June 2009 (Unaudited) *HK$'000*	31 December 2008 (Audited) *HK$'000*
0-30 days	364	589
31-60 days	42	4
61-90 days	162	97
Over 90 days	15	41
	583	731

10. OTHER PAYABLES

Included in the other payables, HK$18,000,000 represents the partial consideration for the acquisition of 12% equity interest in Far Glory Limited, which is extra convertible note that shall be issued by the Company if the average actual profit of Far Glory Limited and its subsidiaries is not less than HK$25,000,000. This amount is unsecured and interest-free.

The remaining HK$8,160,000 represents the partial consideration for the acquisition of 51% equity interest in Start Bright Limited, which is earn out convertible note that shall be issued by the Company if the vendor can fulfill the profit requirements of the earn out convertible note. This amount is unsecured and interest-free.

11. CONVERTIBLE NOTES

On 20 June 2008, the Company issued 1% convertible notes with principal amounts of HK$18,000,000 and HK$4,000,000, respectively. The convertible notes were issued as partial consideration for the acquisition of 12% shareholding interest in Far Glory Limited.

On 24 June 2008, the Company issued the convertible note in the principal amount of HK$3,000,000 with an interest rate of 1% per annum. The convertible note was issued as partial consideration for the acquisition of 51% equity interest in Start Bright Limited.

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

12. PROMISSORY NOTE

On 24 June 2008, a promissory note with principal amount of HK$7,240,000 was issued by the Company as partial consideration for the acquisition of 51% of equity interest in Start Bright Limited. During the reporting period and 2008, HK$1,500,000 and HK$3,500,000 were repaid respectively.

13. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current period's presentation.

3. INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2009, being the latest practicable date for the purpose of this statement of indebtedness, the Enlarged Group had outstanding borrowings of approximately HK$42,791,000, details of which are set out below:

	HK$'000
Current liabilities	
Other payables (unsecured and unguaranteed)	667
Non-current liabilities	
Promissory note (unsecured and unguaranteed)	2,240
Convertible bonds (unsecured and unguaranteed)	13,605
Other payables (unsecured and unguaranteed)	26,279
	42,124
Total borrowings	42,791

Contingent liabilities

As at 31 October 2009, the Enlarged Group had no material contingent liabilities.

Commitments

As at 31 October 2009, the Enlarged Group did not have any commitments.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 October 2009.

The Directors are not aware of any material changes in the financial position of the Enlarged Group since 31 October 2009, the date to which the indebtedness statement is made.

4. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Enlarged Group including the net proceeds of approximately HK$27.5 million received by the Group as a result of the placing of 273,000,000 Shares as stated in the announcement of the Company dated 8 September 2009 and the internally generated funds, the Enlarged Group will have sufficient working capital for at least twelve months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group as at 31 December 2008, the date to which the latest published audited financial statements of the Group were made up.

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from World Link CPA Limited.

World Link CPA Ltd. Certified Public Accountants
滙領會計師事務所有限公司

23 November 2009

The Directors
China Digital Licensing (Group) Limited
Unit 1601, Ruttonjee House,
Ruttonjee Centre, II Duddell Street,
Central, Hong Kong

Dear Sirs,

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION TO THE DIRECTORS OF CHINA DIGITAL LICENSING (GROUP) LIMITED

We report on the unaudited pro forma consolidated statement of financial position (the "Unaudited Pro Forma Financial Information") of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Far Glory Limited ("Far Glory") and its subsidiaries (the "Target Group") (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company (the "Directors") for illustrative purpose only, to provide information to the shareholders of the Company about how the proposed acquisition of 21.57% shareholding interest in Far Glory (the "Proposed Acquisition"), might have affected the financial information presented for inclusion as Appendix III of this Circular of the Company dated 23 November 2009 (the "Circular"). The basis of preparation for the Unaudited Pro Forma Financial Information is set out on page 162 in Appendix III to this Circular.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2009 or any future date.

Opinion

In our opinion:

– The Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

– such basis is consistent with the accounting policies of the Group; and

– the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully
World Link CPA Limited
Certified Public Accountants
Hong Kong

Fung Tze Wa
Practising Certificate No.: P01138

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma consolidated statement of financial position of the Enlarged Group, which has been prepared on the basis of the notes set out below and assuming that the Proposed Acquisition had been completed as at 30 June 2009 for the purpose of illustrating how the Proposed Acquisition might have affected the financial position of the Group at that date.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based upon the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2009, extracted from its published interim report for the six months ended 30 June 2009 and the audited consolidated statement of financial position of the Target Group as at 30 June 2009 as extracted from the accountants' report set out in Appendix I to this Circular after making appropriate pro forma adjustments that are considered necessary as if the Proposed Acquisition had been completed on 30 June 2009.

The unaudited pro forma consolidated statement of financial position is based on a number of assumptions, estimates and uncertainties. The accompanying unaudited pro forma consolidated statement of financial position does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on 30 June 2009. The unaudited pro forma consolidated statement of financial position does not purport to predict the future financial position of the Enlarged Group.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group should be read in conjunction with the Accountants' Report on the Target Group as set out in Appendix I to this Circular, the historical financial information on the Group as set out in Appendix II to this Circular and other financial information included elsewhere in this Circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	The Group As at 30 June 2009 HK$'000 (unaudited)	The Target Group As at 30 June 2009 HK$'000	Pro forma adjustments HK$'000	Notes	Unaudited Pro Forma of the Enlarged Group as at 30 June 2009 Total HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	152	–			152
Interests in associates	65,212	–	(65,212)	2(i)	–
Goodwill	19,826	–	98,582	2(ii)	118,408
Total non-current assets	85,190	–			118,560
CURRENT ASSETS					
Trade and other receivables	2,017	4,610			6,627
Amounts due from associates	–	6,589			6,589
Cash and cash equivalents	9,926	13,938			23,864
Total current assets	11,943	25,137			37,080
Total assets	97,133	25,137			155,640
CURRENT LIABILITIES					
Other payables	834	60			894
Amount due to a shareholder	–	22	(22)	2(i)	–
Tax payable	194	–			194
Total current liabilities	1,028	82			1,088
NON-CURRENT LIABILITIES					
Other payables	26,160	–			26,160
Convertible notes	23,289	–	21,076	2(iii), (iv)	44,365
Promissory note	2,240	–			2,240
Deferred tax liabilities	33	–			33
Total non-current liabilities	51,722	–			72,798
Total liabilities	52,750	82			73,886
EQUITY					
Share capital	68,254	87	10,129	2(v)	78,470
(Deficits)/Reserves	(24,914)	24,968	(10,090)	2(vi)	(10,036)
	43,340	25,055			68,434
NON CONTROLLING INTERESTS	1,043	–	12,277	2(vii)	13,320
Total equity fund	44,383	25,055			81,754
Total equity and liabilities	97,133	25,137			155,640

Notes:

1. The Unaudited pro forma consolidated statement of financial position of the Enlarged Group as presented has been prepared based on (1) unaudited condensed consolidated statement of financial position of the Group as at 30 June 2009, which has been extracted from the published interim report of the Group for the period ended 30 June 2009 as set out in Appendix II to this Circular and (2) the audited consolidated statement of financial position of the Target Group as at 30 June 2009 which has been extracted from the accountants' report of the Target Group as set out in Appendix I to this Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto as if the Acquisition had been completed on 30 June 2009. Had the Group's financial statements been audited, adjustment might be made to the figures of the Group. Any adjustments that might have been found to be necessary to the figures of the Group might have a consequential significant effect on the net assets of the Group as at 30 June 2009.

2. For the acquisition of 21.57% interest in Far Glory Limited (the "Acquisition"), the adjustments reflect the acquisition at the purchase price of HK$32,355,000, which will be satisfied by the issue of Consideration Shares in the amount of HK$5,452,000 and the issue of Convertible Bonds in the principal amount of HK$26,903,000.

   (i) Upon completion of the Acquisition, the Target Group will cease to be an associate company and become a subsidiary of the Company. The pro forma adjustment of HK$65,212,000 represents the reclassification of the interest in an associate company arising from the Acquisition which is arrived as follows:

	HK$'000
Consideration of acquisition of 20.26% interest in the Target Group	65,250
Less: Share of 20.26% of the results of the Target Group for the year ended 31 December 2008 and 30 June 2009	(60)
Add: Amount due from the Target Group to the Company	22
	65,212

   HK$22,000 represents the reclassification of the amount due from the Target Group to the Company.

   (ii) After the acquisition, the Company will indirectly hold 51% interest in Target Group and that the Target Group will become a subsidiary of the Company. In this respect, the pro forma adjustment of approximately HK$98,582,000 represents goodwill arising on the consolidation of the accounts of the Target Group which is arrived as follows:

	HK$'000
Consideration for the acquisition of 21.57% interest in the Target Group	32,355
Add: Reclassification of the interest in the Target Group as described in note (i) above	65,250
Add: Consideration of acquisition of 9.17% interest in the Target Group on 28 September 2009	13,755
	111,360
Less: Share of 51% of net identifiable assets of the Target Group as at 30 June 2009 (HK$25,055,000 x 51%)	(12,778)
	98,582

The initial recognition for the Acquisition has been determined provisionally, awaiting the receipt of professional valuation in relation to the fair value of the Consideration Shares, Convertible bonds and certain underlying assets and liabilities of the Target Group. Hence, the goodwill may be subject to further changes upon finalization of initial recognition. Accordingly, the Company has not remeasured its previously held equity interests in the Target Group at its acquisition-date fair value and also has not recognised gain or loss, if any, in profit or loss. These equity interests represent 8.26%, 12.00% and 9.17% of the Target Group purchased by the Company on 14 April 2008, 5 May 2008 and 14 August 2009 respectively.

(iii) The Company will issue the Convertible Bonds in the principal amount of HK$26,903,000 upon completion. By taking the discount rate at 5% per annum, the present value of the liability component is approximately HK$21,076,000, with the balance of HK$5,827,000 accounted for as a component of equity.

(iv) The discount rate has been determined provisionally, awaiting the receipt of professional valuation.

(v) Upon completion, the Company will issue 58,000,000 new Consideration Shares at issue price of HK$0.094 per Consideration Share. HK$2,900,000 and HK$2,552,000 represent the nominal value of the Consideration Shares at HK$0.05 per share of the Company and the share premium arising from the issuance of the Consideration Shares respectively.

On 28 September 2009, the Company completed the acquisition of 9.17% interest in the Target Group at a consideration of HK$13,755,000. Such consideration was fully settled by the issue of 146,329,787 new shares at issue price of HK$0.094 per Consideration share. HK$7,316,000 and HK$6,439,000 represent the nominal value of 146,329,787 new shares at HK$0.05 per share of the Company and the share premium arising form the issue of such shares respectively.

The pro forma adjustment of HK$10,129,000 represents the nominal value of the Consideration Shares at HK$0.05 per share and the elimination of the share capital of HK$87,000 of the Target Group upon consolidation.

(vi) The pro forma adjustment of approximately HK$10,090,000 represents share premium of HK$8,991,000 in relation to the issuance of shares, the equity portion of the Convertible bond as mentioned in note (iii) and (v) above, adjustment of the share of pre-acquisition reserve of the Target Group of HK$24,968,000 between the Group and non-controlling interest and the adjustment of the Company's share of 20.26% of the results of the Target Group for the year ended 31 December 2008 and six-month ended 30 June 2009 of approximately HK$22,000 and HK$38,000 respectively.

(vii) The pro forma adjustment of approximately HK$12,227,000 represents the non-controlling interests' share of 49% of net identifiable assets of the Target Group.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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:

(1) the information contained in this circular is accurate and complete in all material respects and not misleading;

(2) there are no other matters the omission of which would make any statement in this circular misleading; and

(3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL

Authorised		*HK$*
2,000,000,000	Shares	100,000,000.00
Proposed increase in authorised share capital		
2,000,000,000	Shares	100,000,000.00
4,000,000,000	Shares	200,000,000.00
Issued and to be issued, fully paid or credited as fully paid		
1,856,704,867	Shares in issue as at the Latest Practicable Date	92,835,243.35
58,000,000	Consideration Shares to be allotted and issued under the Agreement	2,900,000
286,202,127	Shares to be allotted and issued upon exercise of the conversion rights as attached to Convertible Bonds under the Agreement	14,310,106.35
2,200,906,994	Shares	110,045,349.70

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of 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 Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(i) Interest in Shares:

Name of Director	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding *(%)*
Mr. Pang Hong Tao	29,800,000 (L)	Beneficial owner	1.59
Mr. Ma She Shing, Albert	9,870,000 (L)	Beneficial owner	0.52
Ms. Au Shui Ming, Anna	41,500,000 (L)	Beneficial owner	2.22
Mr. Hsu Tung Sheng	13,000,000 (L)	Beneficial owner	0.69

L: Long Position

(ii) Interest in share options:

Name of Director	Date of grant	Exercisable period	Exercise price per share *HK$*	Number of share options granted
Mr. Ma She Shing, Albert	28 August 2008	16 September 2008 – 27 August 2018	0.101	1,000,000 (L)

L: Long Position

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the share of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed 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 referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' and other persons' interests in Shares and underlying shares

As at the Latest Practicable Date, the interests and short positions of persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding *(%)*
Mr. Lau Kim Hung, Jack *(Note 1)*	395,698,238 (L)	Interest of controlled corporation	21.15
	4,500,000 (L)	Deemed	0.24
Ms. Chan Yiu Kan Katie *(Note 1)*	4,500,000 (L)	Beneficial owner	0.24
	395,698,238 (L)	Deemed	21.15
Mr. Hsu Tung Chi *(Note 2)*	166,666,666 (L)	Beneficial owner	8.91
Ms. Chuang Meng Hua *(Note 2)*	166,666,666 (L)	Deemed	8.91

L: Long Position

Notes:

1. Manciple Enterprises Limited ("Manciple") is wholly and beneficially owned by Mr. Lau. Manciple beneficially owns 395,698,238 Shares. Under the SFO, Mr. Lau is deemed to be interested in 395,698,238 Shares.

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

2. According to the sale and purchase agreement entered into among Cheer Plan Limited, a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi 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 notes of principal amount of HK$40,000,000 to Mr. Hsu Tung Chi. The Company redeemed 22,222,222 convertible notes of principal amount of HK$4,000,000 and 22,222,222 convertible notes of principal amount of HK$4,000,000 on 3 July 2009 and 17 July 2009 respectively, as at the Latest Practicable Date, there were maximum of 166,666,666 convertible notes outstanding.

   Ms. Chuang Meng Hua is deemed to be interested in 166,666,666 convertible notes of the Company by virtue of her being the spouse of Mr. Hsu Tung Chi.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), 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, or, who was directly or indirectly interested in 5% 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.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

5. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualification of the expert who have given opinions or advice which are contained in this circular:

Name	Qualifications
Veda Capital Limited ("Veda Capital")	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity pursuant to the SFO
World Link CPA Limited ("World Link")	Certified Public Accountants

As at the Latest Practicable Date, Veda Capital and World Link did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2008, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, Veda Capital and World Link were not interested beneficially or non-beneficially in any Shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Veda Capital and World Link were given and were not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

6. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

(a) the conditional agreement dated 14 April 2008 entered into between the Cheer Plan Limited, a wholly owned subsidiary of the Company, as a subscriber and Far Glory Limited in relation to the subscription of 900 new shares of Far Glory Limited at a total consideration of HK$20,250,000;

(b) the conditional agreement dated 21 April 2008 entered into between Rise Assets and Lao Kuai Hong in relation to the disposal of 476 ordinary shares of Proud Dragon, representing 100% of the equity interest in Proud Dragon;

(c) the conditional agreement dated 5 May 2008 entered into among Cheer Plan Limited, a wholly owned subsidiary of the Company, as purchaser, Mr. Hsu Tung Chi as vendor, and Mr. Hsu Tung Sheng as guarantor in relation to the acquisition of 1,308 ordinary shares of Far Glory Limited, representing 12% of the total issued share capital of Far Glory Limited;

(d) the conditional agreement dated 2 June 2008 entered into among Wonder Link Limited, a wholly owned subsidiary of the Company, as purchaser, Smart Great International Limited as vendor and Mr. Liu Zong Hong as guarantor in relation to the acquisition of 102 ordinary shares of Start Bright Limited;

(e) the conditional sale and purchase agreement dated 7 July 2008 entered into between Rise Assets Limited, a wholly owned subsidiaries of the Company, as vendor and Mr. Zeng Xiang Yang as purchaser in relation to the disposal of one ordinary share of Silky Sky Investments Limited, representing the entire equity interest in Silky Sky Investments Limited for a total consideration of HK$15,000,000;

(f) the conditional agreement dated 5 December 2008 and entered into between the Company and Mr. Mo Wai Ming, Lawrence in elation to the sale and purchase of 116,225 KanHan Inc. Shares and all the obligations, liabilities and debts owing or incurred by the KanHan Inc. to the Company on Completion, which amounted to approximately HK$22.82 million;

(g) the conditional agreement dated 14 August 2009 entered into among Cheer Plan Limited, a wholly owned subsidiary of the Company, as purchaser, Mr. Yuan Sheng Jun as vendor in relation to the acquisition of 1,000 ordinary shares of Far Glory Limited, representing 9.17% of the total issued share capital of Far Glory Limited;

(h) the placing agreement entered between the Company and the Phoenix Capital Securities Limited dated 8 September 2009 in relation to the placing of 273,000,000 Shares; and

(i) the Agreement.

7. INTEREST IN CONTRACTS AND ASSETS

No contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries is a party and in which any Director has a material interest, whether directly or indirectly, subsist at the date of this circular.

None of the Directors and expert referred in the paragraph headed "Qualification and consent of expert" in this appendix has any direct or indirect interest in any asset which has been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2008, the date to which the latest published audited consolidated financial statements of the Group were complied, up to and including the Latest Practicable Date.

8. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors, controlling shareholder or substantial shareholders or any of their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or has, any other conflict of interest which any such person has or may have within the Group.

9. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

10. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong, during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company:

(b) the material Contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(c) the accountants' report on the Target Group. the text is set out in Appendix I of this Circular;

(d) the annual report of the Company for each of the two financial years ended 31 December 2008;

(e) the letter from Word Link CPA Limited in respect of the unaudited pro forma financial information on the Enlarged Group, the text is set out in Appendix III of this Circular;

(f) the written consent from each of the experts referred to in the paragraph headed "Expert and Consent" in this appendix;

(g) the letter from the Independent Board Committee, the text of which is set out on pages 29 to 30 in this circular;

(h) the letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders for Acquisition and Independent Shareholders for New General Mandate, the text of which is set out on pages 31 to 57 in this circular;

(i) the circular of the Company dated 7 September 2009 in relation to, among other matters, the investment made by the Purchaser in Far Glory; and

(j) this circular.

11. MISCELLANEOUS

(a) The registered office of the Company is located at Caledonian Bank & Trust Limited, Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

(c) The company secretary and compliance officer of the Company is Ms. Au Shui Ming, Anna, who is a certified practicing accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants.

(d) The Company has established an audit committee with written terms of reference prepared and adopted with reference to the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The audit committee comprises three members, namely Mr. Hsu William Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent who are all independent non-executive Directors. Further details of them are set out below:

Mr. Lee Kun Hung, aged 43, is an independent non-executive Director and audit committee member of the Company. Mr. Lee has over 15 years of manufacturing experience in the watch industry. Mr. Lee holds a Bachelor of Arts degree from Boston College, Massachusetts, US. Mr. Lee has not held any directorship in any listed company.

Mr. Hsu William Shiu Foo, aged 58, is an independent non-executive Director and audit committee member of the Company. Mr. Hsu has over 10 years of global business experience in tourism and service-oriented related fields in various international corporations. Mr. Hsu holds a Bachelor degree in Arts from Brigham Young University, Hawaii and a Master degree in Hotel Administration from Cornell University, New York. Mr. Hsu is currently an independent non-executive director of Hua Xia Healthcare Holdings Limited, a company listed on GEM.

Mr. Kwok Chi Sun, Vincent, aged 46, is an independent non-executive Director and audit committee member of the Company. Mr. Kwok is a sole proprietor of Vincent Kwok & Co., and is a Certified Public Accountant. He is an independent non-executive director of five other listed companies in Hong Kong, i.e. Shun Ho Resources Holdings Limited, Shun Ho Technology Holdings Limited, Magnificent Estates Limited, Emperor Capital Group Limited and Palmpay China (Holdings) Limited, the former four named companies are listed on main board of the Stock Exchange while the last named company is listed on GEM.

(e) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of the shareholders of China Digital Licensing (Group) Limited (the "**Company**") will be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Friday, 11 December 2009 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company:

(1) "**THAT**

(a) the conditional agreement date 8 October 2009 as supplemented by a supplemental agreement date 15 October 2009 (the "**Agreement**") and entered into between Cheer Plan Limited, a wholly owned subsidiary of the Company, as purchaser, Daily Technology Company Limited as vendor (the "**Vendor**") in relation to the sale and purchase of 2,351 ordinary shares of Far Glory Limited, at a total consideration of HK$32,355,000 (a copy of which has been produced to the EGM marked "A" and signed by the chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(b) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Agreement and the transactions contemplated thereunder;

(c) the allotment and issue of an aggregate of 58,000,000 shares (the "**Consideration Shares**" and each a "**Consideration Share**") of HK$0.05 each in the share capital of the Company credited as fully paid at an issue price of HK$0.094 per Consideration Share to the Vendor in accordance with the terms and conditions of the Agreement and the transactions contemplated thereunder be and is hereby approved.

(d) the issue of a convertible bond (the "**Convertible Bond**") in the principal amount of HK$26,903,000 by the Company to the Vendor (or its nominee) in accordance with the terms and conditions of the Agreement and the transactions contemplated thereunder be and is hereby approved;

(e) any one or more of the Directors be and is/are hereby authorised to take all steps necessary or expedient in his/their opinion to implement and/or give effect to the issue of the Convertible Bond, including but not limited to the allotment and issue of ordinary shares of HK$0.05 each in the share capital of the Company of which may fall to be issued upon the exercise of the conversion rights attached to the Convertible Bond."

2. "**THAT**, to the extent not already exercised, the mandate to allot and issue shares of the Company given to the directors (the "**Directors**") of the Company at the annual general meeting (the "**AGM**") of the Company held on 2 June 2009 be and is hereby revoked and replaced by the mandate **THAT**:

(a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued shares of the Company (the "**Shares**") of HK$0.05 each in the share capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any options granted under the existing share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association (the "**Articles**") of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:

(i) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and

(ii) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of such resolution),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution:

"**Relevant Period**" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles, the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated or revised) of the Cayman Islands (the "**Companies Law**") or any other applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;"

"**Rights Issue**" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong)."

3. "**THAT** conditional upon the passing of resolution no. 2 above, the mandate granted to the Directors at the AGM to extend the general mandate to allot and issue Shares to Shares repurchased by the Company be and is hereby revoked and replaced by the mandate THAT the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 2 above in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such resolution."

4. "**THAT** the authorised share capital of the Company be and is hereby increased from HK$100,000,000 to HK$200,000,000 by creation of 2,000,000,000 new Shares of HK$0.05 each and that, upon issue, such new Shares shall rank pari passu in all respects with the exiting Shares."

Yours faithfully,
For and on behalf of the Board of
China Digital Licensing (Group) Limited
Pang Hong Tao
Chairman

Hong Kong, 23 November 2009

Registered office:
Caledonian Bank & Trust Limited
Caledonian House
P.O. Box 1043, George Town
Grand Cayman, Cayman Islands

Head office and principal place of business in Hong Kong:
Unit 1601, Ruttonjee House
Ruttonjee Centre
11 Duddell Street
Central, Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

2. A form of proxy for use of the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

4. In the case of joint holders of Shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such Shares as if he was solely entitled thereto, but if more than one such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.