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

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

Annual Report 2010

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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This report, for which the directors of China Digital Licensing (Group) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to China Digital Licensing (Group) Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:– (1) the information contained in this report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

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

Independent Non-executive Directors

Kwok Chi Sun, Vincent
Lee Kun Hung
Wong Tak Shing

AUDIT COMMITTEE

Kwok Chi Sun, Vincent
Lee Kun Hung
Wong Tak Shing

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Au Shui Ming, Anna

COMPLIANCE OFFICER

Au Shui Ming, Anna

AUTHORISED REPRESENTATIVES

Pang Hong Tao
Au Shui Ming, Anna

AUDITOR

Mazars CPA Limited
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1601, Ruttonjee House
Ruttonjee Centre
11 Duddell Street, Central
Hong Kong

SHARE REGISTRAR

Standard Registrars Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

WEBSITE ADDRESS

www.chinadigitallic.com

STOCK CODE

8175

FINANCIAL HIGHLIGHTS

	For the year ended 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	6,622	21,238	10,044	4,150	**6,973**
(Loss) Profit for the year attributable to:					
Equity holders of the Company	(6,273)	(2,470)	(66,159)	(8,767)	**(21,452)**
Non-controlling interests	–	3,176	(4,246)	308	**(7,640)**
(Loss) Profit for the year	(6,273)	706	(70,405)	(8,459)	**(29,092)**

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	27,565	135,776	101,184	161,305	**200,617**
Total liabilities	(5,284)	(18,101)	(61,195)	(46,657)	**(48,247)**
Non-controlling interests	–	(18,019)	(672)	(13,205)	**(5,912)**
Net assets attributable to equity holders of the Company	22,281	99,656	39,317	101,443	**146,458**

Note:

The Company was incorporated in the Cayman Islands on 10 October 2002 and became the holding company of the Group on 15 January 2003 as a result of the Group Reorganisation.

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), we hereby present the Annual Report of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2010.

OPERATION REVIEW

I. e-Licensing Business

During the year under review, the digital copyright management business of the Group has achieved significant breakthroughs.

The Group officially signed an exclusive cooperation agreement in December 2010 with OneStop China Limited ("OSC"), the joint venture established by Universal, Warner and Sony, in relation to obtaining the exclusive license for the provision of the music contents licensed by the top three record labels on the music platform of China Unicom. Up to 450,000 pieces of music content are retrieved from domestic and overseas music libraries.

In February 2011, the Group formally launched the music contents licensed by OSC on the music platform of China Unicom. By the end of March 2011, several thousands of the latest and the most popular licensed songs have been uploaded by the Group, including songs from Chinese artists like Eason Chan (陳奕迅), Faye Wong (王菲), Khalil Fong (方大同), Jam Hsiao (蕭敬騰), Leehom Wang (王力宏) and Rainie Yang (楊丞琳) and international artists like Lady Gaga, Michael Jackson and Mariah Carey. Most of these songs are the nationwide hit of the weekly pop chart of China Unicom.

As one of the leading mobile operators in China, China Unicom's customer base reached approximately 160 million (of which 17 million customers subscribed to the 3G network), and the number of 3G network subscribers is accelerating at a rapid pace. Being the largest music content provider of China Unicom, the Group will further co-operate with China Unicom on the special music zones under the music platform of China Unicom to provide music oriented value-added services which are likely to generate substantial immediate revenue to the Group.

In January 2011, the Group entered into an agreement to acquire 25% equity interest of Socle Limited and its subsidiaries ("Socle Group"), one of the leading distributors of professional sports licensed media content in China. Socle Group possesses diversified professional sporting events contents, including the Chinese Basketball Association, China Football Association Super League, Mission Hills Golf World Cup and FIFA Club World Cup, which captures over 50% of the market share of China's professional sports events licensing market with over 2,000 hours of events and special sports programs output every year. Socle Group built a sports TV broadcast platform that spans across the country and overseas regions. The Group is working closely with Socle Group to penetrate the sports content into the telecommunication sector and other digital media networks.

II. e-Learning Business

Building upon the Group's e-Learning platform and its close relationship with the school network in Hong Kong, the Group has evolved from an e-learning provider to a leading turnkey supplier to provide various e-learning platforms, joint school competitions, extra-curricular activities, various e-learning contents and resources, and the provision of the latest educational/green technology solutions.

The Hong Kong Government and the Macao Government both place high emphasis on education. In view of the buoyant economies condition, increasing financial resources have been diverted to nearly to all the secondary and primary schools.

During the reporting year, the Group has successfully clinched over 30 primary schools in the first batch of the Hong Kong Government funding education projects for provision of various language enhancement programs. The Group is in the process of preparing the proposals for around 50 primary schools in the second batch of the above mentioned projects which will commence in September 2011. Similar projects for secondary schools will also commence in 2011 and the Group is actively working with around 100 secondary schools to prepare on such.

In addition to Hong Kong, the Group has also succeeded in replicating its business model to Macao. Other than providing e-Learning contents such as e-storybooks and Mathematics learning programs, the Group has been recently appointed by the Macao Education & Youth Affairs Bureau for three consecutive years to provide all primary and secondary school students in Macao with the Group's online reading platforms. The Group is actively working with schools in Macao to design other educational technology solutions which meet the needs of students and teachers there.

PROSPECTS

The Group has overcome all the challenges in the past two to three years and has now established China's most complete and unprecedented digital copyright management infrastructure, strategic partnerships, business networks and the most needed licensing contents such as music and professional sports. The management of the Group is optimistic that substantial revenue and profits are likely to be generated in the 2011 fiscal year.

APPRECIATION

On behalf of the Board, I would like to thank you to all the shareholders, investors, and customers for their support, and to the management and all the staff of the Company for their hard work and endeavours they delivered to the Group during the year.

Hsu Tung Sheng
Chairman

Hong Kong, 29 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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The Group also obtained an exclusive licensing from the major record label, Avex in Asia Pacific in March 2010 for providing music content retrieved from its Chinese and Japanese music libraries on the music platform of China Unicom and the music website of Baidu.

In January 2011, the Group entered into an agreement to acquire 25% equity interest of Socle Limited and its subsidiaries ("Socle Group"), one of the leading distributors of professional sports licensed media content in China. Socle Group possesses diversified professional sporting events contents, including the Chinese Basketball Association, China Football Association Super League, Mission Hills Golf World Cup and FIFA Club World Cup, which captures over 50% of the market share of China's professional sports events licensing market with over 2,000 hours of events and special sports programs output every year. Socle Group built a sports TV broadcast platform that spans across the country and overseas regions.

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The Hong Kong Government and the Macao Government both place high emphasis on education. In view of the buoyant economies condition, increasing financial resources have been diverted to nearly to all the secondary and primary schools.

MANAGEMENT DISCUSSION AND ANALYSIS

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FINANCIAL REVIEW

Results

The Group incurred a net loss attributable to shareholders of approximately HK$21,452,000 for the year ended 31 December 2010 compared with that of approximately HK$8,767,000 last year. Revenue from continuing operations for the year amounted to approximately HK$6,973,000 (2009: HK$4,150,000), representing an increase of approximately 68% compared to last year. The increase in turnover was mainly contributed by the increase in sales of e-Learning business, driven by the successful launch of the e-Learning English enhancement programs in the third quarter of this year.

Administrative expenses for the year ended 31 December 2010 amounted to approximately HK$32,186,000 (2009: HK$15,044,000), representing an increase of approximately HK$17,142,000 as comparing with last year. The increase was mainly attributed to (i) the share based payment arising from granting of share options and (ii) the impairment loss of deposits paid for the music contents in relation to the e-Licensing business.

Liquidity and financial resources

As at 31 December 2010, the Group had current assets of approximately HK$75,561,000 (2009: HK$42,454,000) and current liabilities of approximately HK$26,069,000 (2009: HK$3,746,000). The current assets were comprised mainly of cash and bank balances of HK$44,645,000 (2009: HK$29,052,000) and trade and other receivables of HK$28,922,000 (2009: HK$11,674,000). The Group's current liabilities were comprised mainly of other payables of approximately HK$4,141,000 (2009: HK$3,059,000) and earn-out payable of HK$18,000,000 (2009: Nil). The Group had no bank borrowings at 31 December 2010 (2009: Nil). As at 31 December 2010, the Group had a current ratio of approximately 2.9 as compared to that of 11.3 at 31 December 2009.

Most of the trading transactions, assets and liabilities of the Group are denominated in Hong Kong dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2010, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSCRIPTION OF NEW SHARES AND WARRANTS

In August 2010, the Company entered into (i) three share subscription agreements to allot and issue in aggregate 103,500,000 shares of the Company in cash at the placing price of HK$0.273 per placing share and (ii) three warrant subscription agreements to place in aggregate 310,500,000 warrants in cash at the warrant issue price of HK$0.001 per warrant. The warrant entitles the subscribers to subscribe for the Company's shares at the subscription price of HK$0.272 per share for a period of three years commencing from the date of issue of the warrants. Each warrant carries the right to subscribe for one new share of the Company.

The completion of the share subscription and warrant subscription took place in September 2010. Details of the transaction have been set out in the announcement of the Company dated 10 August 2010.

FOREIGN EXCHANGE RISK

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

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2010, the Group had 40 (2009: 23) full-time employees. Employee costs for the year 2010, excluding directors' emoluments, amounted to approximately HK$11,414,000 (2009: HK$5,772,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided. In addition, training and development courses are offered throughout the Group to upgrade employee skills and knowledge.

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the year ended 31 December 2010 except that no nomination committee of the Board is established.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2010.

BOARD OF DIRECTORS AND BOARD MEETINGS

The board members for the year ended 31 December 2010 and up to the date of this report were:

Executive directors:

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

Non-executive director:

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

Independent non-executive directors:

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

The board of directors (the "Board") is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives formulated by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The directors' biographical information is set out on pages 14 and 15 of this Annual Report. All executive directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The Company appointed three independent non-executive directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. All of them have been appointed for a term of one year commencing from the date of appointment and will continue thereafter until terminated by either party giving each other not less than one month's notice. Each director should be subject to retirement by rotation at least once every three years.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive directors to be independent.

The Board held a full board meeting for each quarter.

Details of the attendance of the meetings of the Board are as follows:

Directors		**Attendance**
Mr. Hsu Tung Sheng		4/4
Mr. Hsu Tung Chi	(appointed on 1 February 2011)	0/4
Mr. Pang Hong Tao		4/4
Ms. Au Shui Ming, Anna		4/4
Mr. Ma She Shing, Albert	(resigned on 1 February 2011)	4/4
Mr. Kwok Chi Sun, Vincent		4/4
Mr. Lee Kun Hung		2/4
Mr. Wong Tak Shing		4/4

Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board level decision on a particular matter is required.

Chairman and Chief Executive Officer

The roles of chairman and chief executive officer of the Company are segregated and are not exercised by the same individual. Mr. Pang Hong Tao has resigned as chairman of the Company on 1 February 2011. Mr. Hsu Tung Sheng was redesignated as chairman of the Company and has resigned as chief executive officer of the Company on 1 February 2011. Mr. Hsu Tung Chi was appointed as chief executive officer on 1 February 2011.

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

REMUNERATION OF DIRECTORS

The remuneration committee was established in June 2005 with written terms of reference in compliance with the code provision. The remuneration committee consists of three members, of which two are independent non-executive directors, namely Mr. Kwok Chi Sun, Vincent and Mr. Lee Kun Hung, and one is executive director, namely Ms. Au Shui Ming, Anna. The chairman of the committee is Mr. Kwok Chi Sun, Vincent.

The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment.

During the period under review, a meeting of the remuneration committee was held in December 2010. Details of the attendance of the meeting of the remuneration committee are as follows:

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

NOMINATION OF DIRECTORS

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

AUDITOR'S REMUNERATION

During the year ended 31 December 2010, the fees paid to the auditors in respect of audit and non-audit services provided by the auditors of the Group were as follows:

Nature of services	**Amount (HK$'000)**
Audit services	380
Non-audit services	97

AUDIT COMMITTEE

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

The audit committee held four meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Mr. Kwok Chi Sun, Vincent	4/4
Mr. Lee Kun Hung	4/4
Mr. Wong Tak Shing	3/4

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2010 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

INTERNAL CONTROLS

The Board is responsible for maintaining the Group's internal controls and reviewing the effectiveness of these controls. Internal control systems are designed to meet the particular needs of the Group and the risk to which it is exposed.

The key control procedures established by the Group are day-to-day supervision of the business by the executive directors, supported by the managers responsible for the operation and the key division support functions of finance, information system and human resources. Key elements of internal controls described below have been in place throughout the year under review:

– procedures for the approval of capital expenditure and payments;
– regular financial information provided to management for reviewing the Group's performance;
– clearly defined management structure and lines of responsibility.

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to events or condition that might cast significant doubt upon the Company's ability to continue in business. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual, half-yearly and quarterly reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Board believes that a transparent and timely disclosure of the Group's information will enable shareholders and investors to make the best investment decision and to have better understanding on the Group's business performance and strategies. It is also vital for developing and maintaining continuing investor relations with the Company's potential and existing investors.

The Company maintains a website at "www.chinadigitallic.com" as a communication platform with shareholders and investors, where information and updates on the Group's financial information and other information are available for public access.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Hsu Tung Sheng, aged 43, was appointed as an executive director on 3 June 2009 and redesignated as chairman of the Company on 1 February 2011. Mr. Hsu is a brother of Mr. Hsu Tung Chi. Mr. Hsu holds a bachelor's degree in law from the National Chengchi University (Taiwan) (國立政治大學(台灣)). Mr. Hsu has over 10 years' experience in advisory on management, operation and strategic planning. Mr. Hsu was a consultant of Toyota Tsusho Corporation ("Toyota Tsusho") and participated in numerous large investment projects for Toyota Tsusho. Mr. Hsu has built up a good relationship with enterprises in Japan. Mr. Hsu will be responsible for marketing, management function and business operation of the copyright management and digital licensing business of the Group. He was previously an executive director and chairman of Palmpay China (Holdings) Limited, a company listed on the GEM of the Stock Exchange.

Mr. Hsu Tung Chi, aged 42, was appointed as an executive director and chief executive officer of the Company on 1 February 2011. Mr. Hsu is a brother of Mr. Hsu Tung Sheng. Mr. Hsu holds a bachelor's degree in Economics from Fu Jen Catholic University (輔仁大學) in Taiwan. Mr. Hsu Tung Chi has over 10 years' experience in advisory on management, operation and strategic planning. Save for being an executive director of Palmpay China (Holdings) Limited, a company listed on the GEM of the Stock Exchange, he did not hold any directorships or other major appointments in any other listed public companies in the last three years immediately prior to the date of his appointment.

Mr. Pang Hong Tao, aged 41, was appointed as an executive director of the Company in July 2007. Mr. Pang holds a bachelor's degree in economics from Nankai University, the People's Republic of China ("PRC") and a master degree in economics from the Renmin University of China. Mr. Pang is the chairman of Finance Committee of ShanDong-HongKong SME Association. He is a member of Chinese Institute of Certified Public Accountants, China Appraisal Society, Shan Dong Certified Consultant Expert Society and China Enterprise Risk Management Society. Mr. Pang has over ten years of experience in financial management, risk management, financial budgeting and corporate finance. He has worked as a chief accountant in an international five-star hotel, the deputy general manager in a management consultancy company and the partner in a Certified Public Accountants firm. Mr. Pang is currently the partner and deputy general manager of a Certified Public Accountants firm in the PRC.

Ms. Au Shui Ming, Anna, aged 46, was appointed as an executive director in July 2007. Ms. Au holds a bachelor degree in commerce, majoring in accounting, from the University of Wollongong in Australia. She is a Certified Practising Accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Ms. Au has extensive experience in the finance and accounting fields. She is currently the Company Secretary and the remuneration committee member of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwok Chi Sun, Vincent, aged 48, was appointed as independent non-executive director in October 2004. Mr. Kwok is also a member of the audit committee and remuneration committee of the Company, is a sole proprietor of Vincent Kwok & Co. and is a Certified Public Accountant. He is also an independent non-executive director of five other listed companies in Hong Kong, i.e. Shun Ho Resources Holdings Limited, Shun Ho Technology Holdings Limited, Magnificent Estates Limited, Emperor Capital Group Limited and Palmpay China (Holdings) Limited, the former four names companies are listed on main board of the Stock Exchange while the last named company is listed on GEM of the Stock Exchange.

Mr. Lee Kun Hung, aged 45, was appointed as independent non-executive director of the Company in June 2005. Mr. Lee is also a member of the audit committee and remuneration committee of the Company, has over 15 years of manufacturing experience in the watch industry. Mr. Lee holds a Bachelor of Arts degree from Boston College, Massachusetts, US.

Mr. Wong Tak Shing, aged 48, was appointed as independent non-executive director of the Company in December 2009. Mr. Wong is also a member of the audit committee of the Company, was graduated from the University of New England, Australia with a Postgraduate Diploma in Financial Management and from the University of Southampton, U.K. with a Bachelor of Social Science in Business Economics and Accounting. Mr. Wong is currently an associate member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years of experience in corporate finance, accounting, personnel and administration. Mr. Wong was previously an executive director of Palmpay China (Holdings) Limited, a company listed on the GEM of the Stock Exchange and an independent non-executive director of Sun Innovation Holdings Limited, a company listed on the main board of the Stock Exchange.

DIRECTORS' REPORT

The directors present the annual report and the audited financial statements of the Group for the year ended 31 December 2010.

DATE OF INCORPORATION

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 16 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 28.

The directors do not recommend the payment of a dividend.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2010 are set out in the consolidated statement of changes in equity on pages 32 and 33.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company did not have any reserves available for cash distribution and/or distribution in specie. In addition, the Company's share premium account had a balance of approximately HK$149,585,000 as at 31 December 2010 (2009: HK$100,826,000).

PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

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

Non-executive director:

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

Independent non-executive directors:

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

In accordance with Articles 108 (a) and (b) of the Company's Articles of Association, Mr. Hsu Tung Chi, Mr. Pang Hong Tao and Ms. Au Shui Ming, Anna and shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors, non-executive director and independent non-executive directors of the Company has entered into a letter of appointment with the Company for a term of one year commencing from the date of appointment, which will continue thereafter until terminated by either party by giving to the other not less than one month's notice in writing.

The Board has obtained written confirmations from all independent non-executive directors of the Company concerning their independence in accordance with Rule 5.09 of the GEM Listing Rules. The Board believes that the existing independent non-executive directors are independent based on the guidelines set out in Rule 5.09 of the GEM Listing Rules.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those transaction as disclosed in note 34 to the financial statement, no director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

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

DIRECTORS' REMUNERATION

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

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

As at 31 December 2010, the interests and short position of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in Shares

Name of director	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Hsu Tung Sheng	Beneficial	19,000,000 (L)	0.87%
Mr. Hsu Tung Chi (appointed on 1 February 2011) *(Note 1)*	Beneficial	19,000,000 (L)	0.87%
	Interest of controlled corporation	41,070,000 (L)	1.87%
Daily Technology Company Limited *(Note 1)*	Beneficial	41,070,000 (L)	1.87%
Mr. Pang Hong Tao	Beneficial	42,800,000 (L)	1.95%
Mr. Ma She Shing, Albert (resigned on 1 February 2011)	Beneficial	28,870,000 (L)	1.32%
Ms. Au Shui Ming, Anna	Beneficial	54,500,000 (L)	2.48%

(L) denotes long position

Note:

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

(ii) Interest in share options

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

(L) denotes long position

(iii) Interest in underlying shares

Name of shareholder	Nature of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Mr. Hsu Tung Chi	Beneficial	Convertible bonds *(Note 1)*	122,222,222 (L)	5.57%
	Interest of controlled corporation	Convertible bonds *(Note 1)*	286,202,127 (L)	13.04%
Daily Technology Company Limited	Beneficial	Convertible bonds *(Note 1)*	286,202,127 (L)	13.04%

(L) denotes long position

Note:

1. According to the sale and purchase agreement entered into among Cheer Plan Limited ("Cheer Plan"), a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi ("Mr. Hsu") and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will allot a maximum of 222,222,222 convertible bonds to Mr. Hsu. 100,000,000 convertible bonds were redeemed by the Company. As at 31 December 2010, there were 122,222,222 convertible bonds outstanding.

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

Save as disclosed above, as at 31 December 2010, none of the directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, (including interests or short positions which they were deemed or taken to have under such provisions of the SFO); or which were required, pursuant to Section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

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

Categories of grantees	As at 1 January 2010	Granted during the year	Exercised during the year	Outstanding at 31 December 2010	Exercise price HK$	Grant date	Exercisable period
Directors							
Mr. Hsu Tung Sheng	6,000,000	–	(6,000,000)	–	0.177	16/12/2009	30/12/2009-15/12/2011
	–	15,000,000	–	15,000,000	0.44	13/12/2010	13/12/2010-12/12/2013
Mr. Pang Hong Tao	13,000,000	–	(13,000,000)	–	0.177	16/12/2009	30/12/2009-15/12/2011
	–	8,000,000	–	8,000,000	0.44	13/12/2010	13/12/2010-12/12/2013
Ms. Au Shui Ming, Anna	13,000,000	–	(13,000,000)	–	0.177	16/12/2009	30/12/2009-15/12/2011
	–	8,000,000	–	8,000,000	0.44	13/12/2010	13/12/2010-12/12/2013
Mr. Ma She Shing, Albert	1,000,000	–	(1,000,000)	–	0.101	28/8/2008	16/9/2008-27/8/2018
	18,000,000	–	(18,000,000)	–	0.177	16/12/2009	30/12/2009-15/12/2011
Employees	80,000,000	–	(80,000,000)	–	0.177	16/12/2009	30/12/2009-15/12/2011
	–	48,000,000	–	48,000,000	0.44	13/12/2010	13/12/2010-12/12/2013
	–	19,000,000	–	19,000,000	0.475	16/12/2010	16/12/2010-15/12/2013
	131,000,000	98,000,000	(131,000,000)	98,000,000			

Particulars of the Company's share option scheme are set out in note 29 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 December 2010, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Interest in Shares

Name of Substantial Shareholder	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Lau Kim Hung, Jack *(Note 1)*	Interest of controlled corporations	497,698,238 (L)	22.67%
	Deemed	4,500,000 (L)	0.21%
Ms. Chan Yiu Kan Katie *(Note 1)*	Beneficial	4,500,000 (L)	0.21%
	Deemed	497,698,238 (L)	22.67%
Manciple Enterprises Limited *(Note 1)*	Beneficial	482,698,238 (L)	21.99%
Eagle Strategy Limited *(Note 1)*	Beneficial	15,000,000 (L)	0.68%
Decade Talent Limited *(Note 2)*	Beneficial	55,000,000 (L)	2.51%
Mr. Wan Wah Chung *(Note 2)*	Beneficial	2,500,000 (L)	0.11%
	Interest of controlled corporation	55,000,000 (L)	2.51%
	Deemed	550,000 (L)	0.02%
Ms. Yueng Wing Suen *(Note 2)*	Beneficial	550,000 (L)	0.02%
	Deemed	57,500,000 (L)	2.62%

(L) denotes long position

Notes:

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

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

2. Decade Talent Limited ("Decade Talent") is wholly and beneficially owned by Mr. Wan Wah Chung ("Mr. Wan"). Decade Talent beneficially owns 55,000,000 shares. Under the SFO, Mr. Wan is deemed to be interested in 55,000,000 shares. Ms.Yueng Wing Suen ("Ms. Yueng"), the wife of Mr. Wan, is personally interested in 550,000 shares. Being spouses, Mr. Wan and Ms. Yueng are deemed to be interested in their respective shareholding in the Company under the SFO.

(ii) Interest in underlying shares

Name of shareholder	Nature of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Decade Talent Limited	Beneficial	Warrants *(Note 1)*	165,000,000 (L)	7.52%
Mr. Wan Wah Chung	Interest of controlled corporation	Warrants *(Note 1)*	165,000,000 (L)	7.52%
Ms. Yueng Wing Suen	Deemed	Warrants *(Note 1)*	165,000,000 (L)	7.52%

(L) denotes long position

Note:

1. Pursuant to the conditional warrant subscription agreement dated 10 August 2010 and entered into among the Company, Decade Talent and Mr. Wan Wah Chung ("Mr. Wan") in relation to the subscription of 165,000,000 warrants by Decade Talent. Under the SFO, Mr. Wan is deemed to be interested in 165,000,000 warrants by virtue of his being the ultimate beneficial owner of Decade Talent.

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

Save as disclosed above, as at 31 December 2010, the directors of the Company were not aware of any other person (other than the directors and the chief executive the Company) who had, or was deemed to have, interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

COMPETING INTERESTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Share Option Scheme" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

CONNECTED TRANSACTIONS

On 10 February 2010, the Company entered into a loan agreement (the "Loan Agreement") with Far Glory Limited ("Far Glory"), (a non-wholly owned subsidiary of the Company) to grant a revolving facility of up to a maximum amount of HK$9.5 million at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Loan Agreement for financing the business development and working capital requirements of the Far Glory Group.

On 23 July 2010, the Company entered into a supplemental agreement (the "Supplemental Agreement") with Far Glory, pursuant to which the Company agreed to increase the revolving loan facility under the Loan Agreement up to a maximum amount of HK$40 million to Far Glory at any time during the period commencing from the date of the Loan Agreement and ending on the date falling 36 months from the date of the Supplemental Agreement.

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

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

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

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected

Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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

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

EVENT AFTER THE REPORTING PERIOD

On 14 January 2011, Marvel Cosmos Limited ("Marvel Cosmos"), a wholly-owned subsidiary of the Company entered into an agreement with Mr. Chang Li Cheng (the "Vendor") to acquire 25% equity interest of Socle Limited ("Socle") and 25% of its obligations, indebtedness and liabilities due by Socle to the Vendor for a total consideration of US$3,810,300 (equivalent to approximately HK$29,720,340). The consideration will be settled as to US$2,000,000 by cash and balance of US$1,810,300 by ordinary shares. As at the date of this report, a deposit of US$500,000 was paid to the Vendor for the acquisition.

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

Upon completion, Marvel Cosmos will be interested in 25% equity interest of Socle.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest customer and the five largest customers accounted for 8.5% (2009: 12.6%) and 15.7% (2009: 19%) respectively, of the Group's total turnover.

During the years ended 31 December 2009 and 2010, the Group's revenue was derived from e-Learning business which is developed internally. Accordingly, information on the Group's major suppliers is not meaningful.

In the opinion of the directors, none of the directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest suppliers or customers.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

AUDITOR

The consolidated financial statements for the financial year ended 31 December 2008 were audited by Vision A.S. Limited. Vision A.S. Limited who acted as auditor of the Company since 27 October 2007, had resigned on 7 October 2009 and Mazars CPA Limited, *Certified Public Accountants*, was appointed as auditor of the Company on 12 October 2009 to fill the casual vacancy and to hold office until the conclusion of the forthcoming annual general meeting of the Company, who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Hsu Tung Sheng
CHAIRMAN

29 March 2011

INDEPENDENT AUDITOR'S REPORT

MAZARS

To the shareholders of
China Digital Licensing (Group) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 28 to 86, which comprise the consolidated and the Company's statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2011

Eunice Y M Kwok
Practising Certificate number: P04604

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Continuing operations			
Turnover	5	**6,973**	4,150
Cost of services rendered and cost of good sold		**(2,244)**	(764)
Gross profit		**4,729**	3,386
Other income	6	**40**	40
Selling and distribution costs		**(363)**	(275)
Administrative and other expenses		**(32,186)**	(15,044)
Finance costs	7	**(1,247)**	(947)
Share of losses of jointly controlled entities		**–**	(69)
Loss before taxation	8	**(29,027)**	(12,909)
Income tax expense	11	**(65)**	(224)
Loss for the year from continuing operations		**(29,092)**	(13,133)
Profit for the year from discontinued operations		**–**	4,674
Loss for the year		**(29,092)**	(8,459)
Other comprehensive income for the year			
Currency translation differences		**169**	–
Income tax relating to other comprehensive income		**–**	–
		169	–
Total comprehensive loss for the year		**(28,923)**	(8,459)
(Loss) Profit attributable to:			
Equity holders of the Company	12	**(21,452)**	(8,767)
Non-controlling interests		**(7,640)**	308
		(29,092)	(8,459)
Total comprehensive (loss) income attributable to:			
Equity holders of the Company		**(21,366)**	(8,767)
Non-controlling interests		**(7,557)**	308
		(28,923)	(8,459)
Basic and diluted (loss) earnings per share	14		
From continuing and discontinued operations		**HK(1.03) cents**	HK(0.59) cents
From continuing operations		**HK(1.03) cents**	HK(0.91) cents
From discontinued operations		**–**	HK0.32 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	15	**54**	100
Interests in jointly controlled entities	17	**–**	–
Due from jointly controlled entities	21	**15,706**	9,455
Goodwill	18	**109,296**	109,296
		125,056	118,851
Current assets			
Inventories	19	**246**	143
Trade and other receivables	20	**28,922**	11,674
Tax recoverable		**163**	–
Due from a director of a subsidiary	21	**1,585**	1,585
Bank balances and cash	22	**44,645**	29,052
		75,561	42,454
Current liabilities			
Other payables	23	**4,141**	3,059
Loans from non-controlling interests	24	**–**	490
Convertible bonds	25	**3,928**	–
Earn-out payable	26	**18,000**	–
Tax payable		**–**	197
		26,069	3,746
Net current assets		**49,492**	38,708
Total assets less current liabilities		**174,548**	157,559
Non-current liabilities			
Convertible bonds	25	**22,174**	24,895
Earn-out payable	26	**–**	18,000
Deferred tax liabilities	32	**4**	16
		22,178	42,911
NET ASSETS		**152,370**	114,648

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	*27*	**109,754**	97,029
Reserves		**36,704**	4,414
Equity attributable to equity holders of the Company		**146,458**	101,443
Non-controlling interests		**5,912**	13,205
TOTAL EQUITY		**152,370**	114,648

Approved and authorised for issue by the Board of Directors on 29 March 2011

Hsu Tung Sheng	**Au Shui Ming, Anna**
Director	*Director*

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Interests in subsidiaries	16	**100,824**	106,244
Loans to a subsidiary	34	**31,000**	–
		131,824	106,244
Current assets			
Trade and other receivables	20	**439**	212
Bank balances and cash	22	**40,035**	20,876
		40,474	21,088
Current liabilities			
Other payables	23	**447**	306
Convertible bonds	25	**3,928**	–
		4,375	306
Net current assets		**36,099**	20,782
Total assets less current liabilities		**167,923**	127,026
Non-current liabilities			
Convertible bonds	25	**22,174**	24,895
NET ASSETS		**145,749**	102,131
Capital and reserves			
Share capital	27	**109,754**	97,029
Reserves	28	**35,995**	5,102
TOTAL EQUITY		**145,749**	102,131

Approved and authorised for issue by the Board of Directors on 29 March 2011

Hsu Tung Sheng
Director

Au Shui Ming, Anna
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to equity holders of the Company										
		Reserves									
	Share capital HK$'000	Share premium HK$'000	*Special reserve HK$'000	Exchange reserve HK$'000	Employee share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total reserves HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2009	66,519	68,103	10,084	(69)	4,354	2,836	(112,510)	(27,202)	39,317	672	39,989
Loss for the year	–	–	–	–	–	–	(8,767)	(8,767)	(8,767)	308	(8,459)
Other comprehensive income	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive (loss) income for the year	–	–	–	–	–	–	(8,767)	(8,767)	(8,767)	308	(8,459)
Transactions with owners											
Issue of consideration shares	10,216	8,991	–	–	–	–	–	8,991	19,207	–	19,207
Issue of convertible bonds	–	–	–	–	–	5,826	–	5,826	5,826	–	5,826
Conversion of convertible bonds	579	1,662	–	–	–	(280)	–	1,382	1,961	–	1,961
Cancellation of convertible bonds	–	–	–	–	–	(47)	–	(47)	(47)	–	(47)
Redemption of convertible bonds	–	–	–	–	–	(2,075)	876	(1,199)	(1,199)	–	(1,199)
Issue of new shares	13,650	15,015	–	–	–	–	–	15,015	28,665	–	28,665
Share issue expenses	–	(717)	–	–	–	–	–	(717)	(717)	–	(717)
Employee share-based payment	–	–	–	–	6,571	–	–	6,571	6,571	–	6,571
Exercise of share options	6,065	7,772	–	–	(3,280)	–	–	4,492	10,557	–	10,557
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	12,225	12,225
Disposal of subsidiaries	–	–	–	69	–	–	–	69	69	–	69
	30,510	32,723	–	69	3,291	3,424	876	40,383	70,893	12,225	83,118
At 31 December 2009	97,029	100,826	10,084	–	7,645#	6,260	(120,401)	4,414	101,443	13,205	114,648

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

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

* The special reserve represents the difference between the nominal amount of shares and share premium of subsidiaries acquired and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation took place in 2003.

\# Included in employee share-based payment reserve was an amount of HK$1,928,000 (2009: HK$1,928,000) relating to the share options lapsed in previous years due to resignation of certain employees.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(29,027)**	(8,235)
Depreciation of property, plant and equipment		**88**	119
Employee share-based payment		**10,323**	6,571
Bad debt written off		**11**	–
Impairment loss of deposits paid		**10,735**	–
Loss on cancellation of convertible bonds		**–**	7
Share of losses of jointly controlled entities		**–**	69
Finance costs		**1,247**	947
Interest income		**(11)**	(26)
Gain on disposal of subsidiaries		**(5)**	(4,703)
Changes in working capital:			
Inventories		**(103)**	(143)
Trade and other receivables		**(27,994)**	(2,399)
Due from a director		**–**	20
Other payables		**637**	764
Loans from non-controlling interests		**–**	490
Cash used in operating activities		**(34,099)**	(6,519)
Interest paid		**–**	(1)
Income taxes paid		**(437)**	(88)
Net cash used in operating activities		**(34,536)**	(6,608)
INVESTING ACTIVITIES			
Advance to jointly controlled entities		**(6,251)**	–
Net cash inflow from acquisition of subsidiaries		**–**	6,185
Net cash inflow from disposal of subsidiaries	*33*	**184**	561
Interest received		**11**	26
Purchases of property, plant and equipment		**(42)**	(15)
Net cash (used in) from investing activities		**(6,098)**	6,757

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
FINANCING ACTIVITIES			
Interest on convertible bonds paid		**–**	(167)
Interest on promissory notes paid		**–**	(43)
Proceeds from issue of share capital		**28,256**	28,665
Proceeds from shares issued under share-based payment scheme		**23,111**	10,557
Proceeds from issue of unlisted warrants		**311**	–
Proceeds from shares issued upon exercise of unlisted warrants		**5,440**	–
Redemption of convertible bonds		**–**	(18,000)
Repayment of promissory notes		**–**	(3,740)
Shares issue expenses		**(1,060)**	(717)
Net cash from financing activities		**56,058**	16,555
Net increase in cash and cash equivalents		**15,424**	16,704
Cash and cash equivalents at beginning of reporting period		**29,052**	12,348
Effect of foreign exchange rate changes, net		**169**	–
Cash and cash equivalents at end of reporting period	22	**44,645**	29,052

MAJOR NON-CASH TRANSACTION

The Company's subsidiary waived the amount of HK$509,000 due from a disposed subsidiary upon the disposal of the subsidiaries during the year, details of which has been set out in note 33 to these consolidated financial statements.

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 16 to the consolidated financial statements.

2. STATEMENT OF COMPLIANCE

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2009 consolidated financial statements except for the adoption of certain new/revised HKFRS effective from the current year that are relevant to the Company as detailed in note 3 to the consolidated financial statements.

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

3. PRINCIPAL ACCOUNTING POLICIES

Adoption of new/revised HKFRS

Amendments to HKFRS 2: Group Cash-settled Share-based Payment Transactions

The Amendments incorporate the guidance in HK(IFRIC) – Int 8: *Scope of HKFRS 2* and HK(IFRIC) – Int 11: *HKFRS 2 – Group and Treasury Share Transactions*. In addition to this, the Amendments provide further guidance on the accounting for share-based payment transactions among group entities. It states that the entity receiving the goods or services should recognise the transaction as an equity-settled share-based transaction only if:

- the awards granted are its own equity instruments; or
- it has no obligation to settle the transaction.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Adoption of new/revised HKFRS *(Continued)*

In all other circumstances, the entity should measure the transaction as a cash-settled share-based payment.

HKFRS 3 (Revised): Business Combinations/Improvements to HKFRS 2009 with amendments to HKFRS 3 (Revised)
The revised standard introduces a number of major changes including the following:

- acquisition-related transaction costs, other than share and debt issue costs, to be expensed as incurred;
- existing interest in the acquiree to be remeasured at fair value, with the gain or loss recognised in profit or loss, upon subsequent changes in ownership interests;
- non-controlling interest in the acquiree to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree;
- contingent consideration to be recognised at fair value at the acquisition date; and
- goodwill to be measured at the excess of the aggregate of the acquisition-date fair value of the acquirer's interest in the acquiree and the amount of any non-controlling interest over the net of the acquisition-date amounts of identifiable assets acquired and the liabilities assumed from the acquisition.

The Improvements to HKFRS 2009 contain amendments to clarify the measurement of the fair value of an intangible asset acquired in a business combination and to permit the grouping of intangible assets as a single asset if each asset has a similar useful economic life.

The Group amended its accounting policies in relation to business combinations in order to bring them in line with the requirements under HKFRS 3 (Revised). The new accounting policies are set out in the notes below. In accordance with the relevant transitional provisions in HKFRS 3 (Revised), the Group has applied these new policies prospectively to business combinations for which the acquisition date is on or after 1 January 2010.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Adoption of new/revised HKFRS *(Continued)*

HKAS 27 (Revised): Consolidated and Separate Financial Statements
The revised standard requires accounting for changes in ownership interests in a subsidiary, while maintaining control, to be recognised as an equity transaction. It also requires, when the group loses control of a subsidiary, any interest retained in the former subsidiary to be remeasured at fair value with the gain or loss recognised in profit or loss. This principle is also extended to a disposal of an associate through the consequential amendments to HKAS 28: *Investments in Associates*. The new accounting policies are set out in the notes below.

HKAS 27 (Revised) also requires that total comprehensive income is attributed to the equity holders of the Company and non-controlling interests on the basis of present ownership interest even if it results in the non-controlling interests having a deficit balance. This revised standard affects the Group's accounting policy for total comprehensive income attributable to the non-controlling interests. As the Group has applied the amendment prospectively, the previously reported results of the Group are not restated on the adoption of this revised standard.

The adoption of the new/revised standards did not have significant impact on the consolidated financial statements for the year ended 31 December 2010.

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceased.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity holders of the Company. For each business combination occurs on or after 1 January 2010, the non-controlling interest in the acquiree is measured initially either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. For each business combination occurred prior to 1 January 2010, the non-controlling interest in the acquiree was measured at the non-controlling interest's proportionate share of the acquiree's net assets.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Allocation of total comprehensive income

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. From 1 January 2010, total comprehensive income is attributed to the equity holders of the Company and the non-controlling interest on the basis of present ownership interest even if it results in the non-controlling interest having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interest in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Changes in ownership interest

From 1 January 2010, changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Company.

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

Prior to 1 January 2010, the Group applied a policy of treating transactions with non-controlling interest as transactions with parties external to the Group and thus the excess amount of any consideration paid over the carrying value of the non-controlling interest acquired was recognised as goodwill. For decreases in the Group's ownership interest in a subsidiary, regardless of whether the disposals would result in a loss of control, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss.

Subsidiaries

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Subsidiaries *(Continued)*

In the Company's statement of financial position, an investment in subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly controlled entities
The Group's investment in jointly controlled entity is accounted for under the equity method of accounting. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition results of the jointly controlled entity for the year. The consolidated statement of financial position includes the Group's share of the net assets of the jointly controlled entity and also goodwill.

In the Company's statement of financial position, an investment in jointly controlled entities is stated at cost less impairment loss determined on an individual basis. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

Goodwill

From 1 January 2010, goodwill arising on an acquisition of a subsidiary is measured at the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired subsidiary. Goodwill arising on an acquisition of an associate or a jointly controlled entity is measured at the excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the acquired associate or jointly controlled entity. Prior to 1 January 2010, goodwill represented the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate and jointly controlled entity.

Goodwill on acquisition of subsidiary is recognised as a separate asset. Goodwill on acquisitions of associates or jointly controlled entities is included in interests in associates or jointly controlled entities. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

From 1 January 2010, in respect of a subsidiary, any excess of the acquisition date amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, if any, after reassessment, is recognised immediately in profit or loss as a bargain purchase. In respect of an associate or a jointly controlled entity, any excess of the Group's share of its net fair value of identifiable assets and liabilities over the cost of investment is recognised immediately in profit or loss. Prior to 1 January 2010, any excess of the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate and jointly controlled entity over the related cost of acquisition, after reassessment, was recognised immediately in profit or loss.

Discontinued operations

A discontinued operation is a component of the Group that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group. It represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Research and development costs

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the financial asset and the Group has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Loans and receivables

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of loans and receivables
At the end of each reporting period, the Group assesses whether there is objective evidence that loans and receivables are impaired.

An allowance for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss.

Financial liabilities
All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Convertible bonds

The component of a convertible bond that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of issue costs.

On the issue of a convertible bond, the fair value of the liability component is determined using market rate for a similar bond that does not have a conversion option; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bonds reserve within equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bonds reserve is transferred to share premium or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bonds reserve is transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Issue costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of proceeds.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. For classification in the statement of financial position, cash equivalents represent assets similar in nature to cash and which are not restricted as to use.

Revenue recognition

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

Income from e-Learning business represents subscription fees for the on-line education programs and provision of e-Learning services. Subscription fees are recognised as revenue on a pro-rata basis over the contract period. Revenue from provision of other e-Learning services is recognised when e-Learning materials are delivered and installation services are rendered.

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

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currency translation *(Continued)*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill and fair value adjustments on the carrying amounts of assets and liabilities arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at the end of the reporting period;

- Income and expenses for each statement of comprehensive income are translated at average exchange rate;

- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in profit or loss when the gain or loss on disposal is recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to determine whether its property, plant and equipment, investment in subsidiaries and jointly controlled entities have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Borrowing costs

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

Employee benefits

Defined contribution plans
The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Defined contribution plans (Continued)
Pursuant to the law and regulations of the People's Republic of China (the "PRC"), contributions to the defined contribution retirement schemes for the Group's PRC staff are made to the relevant government authorities in the PRC, which are calculated on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. These contributions are expensed as incurred.

Share-based payment transactions

Equity-settled transactions
The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using the binomial model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company ("market conditions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the years in which the vesting conditions are to be fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, with a corresponding adjustment to the reserve within equity.

Where the terms of an equity-settled award are modified, an additional expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described above. Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position which is eliminated on consolidation.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

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

Related parties

A party is related to the Group if

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
(b) the party is an associate of the Group;
(c) the party is a joint venture in which the Group is a venturer;
(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.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Segment reporting *(Continued)*

Individual material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Allowance for bad and doubtful debts
The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

Impairment of investments and receivables
The Company and the Group assess annually if investment in subsidiaries and jointly controlled entities have suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from these entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Details of the estimates used to calculate the recoverable amount are given in note 18 to the consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Future changes in HKFRS

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

Amendments to HKAS 32	*Classification of Rights Issues* [1]
Amendments to HKFRS 1 (Revised)	*Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HK(IFRIC) – Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
Amendments to HK(IFRIC) – Int 14	*Prepayments of a Minimum Funding Requirement* [3]
Improvements to HKFRSs 2010	*Improvements to HKFRSs 2010* [4]
Amendments to HKFRS 7	*Disclosures – Transfer of Financial Assets* [5]
Amendments to HKFRS 1 (Revised)	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [5]
Amendments to HKAS 12	*Deferred Tax: Recovery of Underlying Assets* [6]
HKFRS 9	*Financial Instruments* [7]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

The directors are in the process of assessing the possible impact on the future adoption of these new and revised HKFRS, but are not yet in a position to reasonably estimate their impact on the Group's consolidated financial statements.

4. SEGMENTAL INFORMATION

The Group manages its businesses by individual companies, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reporting segments. No operating segments have been aggregated to form the following reporting segments.

- the e-Learning business segment which provides e-Learning programs and development of related products; and
- the e-Licensing business segment which provides the distribution of copyright protected items and other entertainment related business.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reporting segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade and other payables to the sales/service activities of the individual segments.

Revenue and expenses are allocated to the reporting segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arisen from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

4. SEGMENTAL INFORMATION *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Information regarding to the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below.

Year ended 31 December 2010

	Continuing operations			Discontinued operations	
	e-Learning business HK$'000	e-Licensing business HK$'000	Sub-total HK$'000	Server-based technology HK$'000	Consolidated HK$'000
Segment revenue					
Sale to external customers	6,973	–	6,973	–	6,973
Segment results	353	(11,815)	(11,462)	–	(11,462)
Unallocated income			35	–	35
Unallocated expenses			(16,358)	–	(16,358)
Unallocated finance costs			(1,247)	–	(1,247)
Gain on disposal of subsidiaries			5	–	5
Loss before taxation			(29,027)	–	(29,027)
Taxation			(65)	–	(65)
Loss for the year			(29,092)	–	(29,092)
Assets and liabilities					
Segment assets	6,054	29,314	35,368	–	35,368
Due from jointly controlled entities	–	15,706	15,706	–	15,706
Unallocated assets					149,543
Consolidated total assets					200,617
Segment liabilities	3,227	471	3,698	–	3,698
Unallocated liabilities					44,549
Consolidated total liabilities					48,247
Other segment information					
Depreciation	88	–	88	–	88
Impairment loss of deposits paid	–	10,735	10,735	–	10,735
Employee share-based payment – unallocated	–	–	–	–	10,323
Capital expenditure	12	30	42	–	42

4. SEGMENTAL INFORMATION *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Year ended 31 December 2009

	Continuing operations			Discontinued operations	
	e-Learning business HK$'000	e-Licensing business HK$'000	Sub-total HK$'000	Server-based technology HK$'000	Consolidated HK$'000
Segment revenue					
Sale to external customers	4,150	–	4,150	172	4,322
Segment results	1,109	–	1,109	(29)	1,080
Unallocated income			40	–	40
Unallocated expenses			(13,042)	–	(13,042)
Unallocated finance costs			(947)	–	(947)
Gain on disposal of subsidiaries			–	4,703	4,703
Share of losses of jointly controlled entities			(69)	–	(69)
(Loss) Profit before taxation			(12,909)	4,674	(8,235)
Taxation			(224)	–	(224)
(Loss) Profit for the year			(13,133)	4,674	(8,459)
Assets and liabilities					
Segment assets	5,389	15,946	21,335	–	21,335
Due from jointly controlled entities	–	9,455	9,455	–	9,455
Unallocated assets					130,515
Consolidated total assets					161,305
Segment liabilities	2,903	48	2,951	–	2,951
Unallocated liabilities					43,706
Consolidated total liabilities					46,657
Other segment information					
Depreciation	119	–	119	–	119
Employee share-based payment – unallocated	–	–	–	–	6,571
Capital expenditure	15	–	15	–	15

4. SEGMENTAL INFORMATION *(Continued)*

(b) Geographic information

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

The following table provides an analysis of the Group's turnover by geographical place of provision of services:

	The PRC HK$'000	**Hong Kong HK$'000**	**Consolidated HK$'000**
Year ended 31 December 2010			
Segment revenue			
Sale to external customers	**–**	**6,973**	**6,973**
At 31 December 2010			
Other segment information			
Non-current assets	**114,281**	**10,775**	**125,056**

	The PRC HK$'000	Hong Kong HK$'000	Consolidated HK$'000
Year ended 31 December 2009			
Segment revenue			
Sale to external customers	–	4,322	4,322
At 31 December 2009			
Other segment information			
Non-current assets	108,000	10,851	118,851

(c) Information about major customers

No sales to a single customer of the Group accounted for over 10% of total revenue of the Group for the years ended 31 December 2009 and 2010, respectively.

5. TURNOVER AND REVENUE

Turnover represents subscription fees for the on-line education programs and revenue from the provision of e-Learning services during the year.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Continuing operations		
e-Learning business		
– Subscription income	**5,448**	3,381
– Sale of learning products	**1,525**	628
– Commission income	**–**	141
	6,973	4,150
Discontinued operations		
Putonghua learning platform	**–**	172
Turnover and revenue	**6,973**	4,322

6. OTHER INCOME

	Group	
	2010	2009
	HK$'000	HK$'000
Interest income	**11**	26
Gain on disposal of subsidiaries	**5**	–
Sundry income	**24**	14
	40	40

7. FINANCE COSTS

	Group	
	2010	2009
	HK$'000	HK$'000
Bank interest expenses	**–**	1
Interest on promissory notes	**–**	23
Interest on convertible bonds	**1,247**	923
	1,247	947

8. LOSS BEFORE TAXATION

This is stated after charging:

	Group	
	2010	2009
	HK$'000	HK$'000
Employee benefits expenses (including directors' remuneration)		
Salaries, allowances and benefits in kind	**4,621**	1,986
Contribution to defined contribution schemes	**129**	74
Employee share-based payment	**10,323**	6,571
	15,073	8,631
Auditor's remuneration	**380**	290
Cost of good sold	**580**	228
Cost of services rendered	**1,664**	536
Depreciation of property, plant and equipment	**88**	119
Bad debt written off	**11**	–
Exchange loss	**88**	–
Impairment loss of deposits paid	**10,735**	–
Operating lease payments – hire of equipment	**29**	–
Research and development costs	**292**	–

9. DIRECTORS' REMUNERATION

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

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share-based payment HK$'000	Contribution to defined contribution schemes HK$'000	Total HK$'000
Year ended 31 December 2010					
Executive directors					
Au Shui Ming, Anna	120	432	830	12	1,394
Hsu Tung Sheng	120	–	1,555	–	1,675
Pang Hong Tao	240	–	830	–	1,070
	480	432	3,215	12	4,139
Non-executive director					
Ma She Sing, Albert (resigned on 1 February 2011)	60	–	–	–	60
Independent non-executive directors					
Kwok Chi Sun, Vincent	60	–	–	–	60
Lee Kun Hung	60	–	–	–	60
Wong Tak Shing	60	–	–	–	60
	180	–	–	–	180
	720	432	3,215	12	4,379

9. DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share-based payment HK$'000	Contribution to defined contribution schemes HK$'000	Total HK$'000
Year ended 31 December 2009					
Executive directors					
Au Shui Ming, Anna	120	467	665	12	1,264
Hsu Tung Sheng (appointed on 3 June 2009)	70	–	263	–	333
Mo Wai Ming, Lawrence (resigned on 19 January 2009)	6	–	–	–	6
Pang Hong Tao	230	–	665	–	895
	426	467	1,593	12	2,498
Non-executive director					
Ma She Sing, Albert	60	–	787	–	847
Independent non-executive directors					
Hsu William Shiu Foo (passed away on 20 November 2009)	55	–	–	–	55
Kwok Chi Sun, Vincent	60	–	–	–	60
Lee Kun Hung	60	–	–	–	60
Wong Tak Shing (appointed on 15 December 2009)	3	–	–	–	3
	178	–	–	–	178
	664	467	2,380	12	3,523

There was no arrangement under which a director waived or agreed to waive any remuneration for the year (2009: 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 (2009: Nil).

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2009: three) directors, details of whose remuneration are set out in note 9 to the consolidated financial statements above. Details of the remuneration of the remaining three (2009: two) highest paid individuals, who are not directors, for the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**305**	–
Employee share-based payment	**4,689**	1,662
	4,994	1,662

The above three (2009: two), highest paid individuals fell within the following bands:

	Number of individuals	
Band	**2010**	2009
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$2,000,000	**3**	–
	3	2

During the year, no remuneration was paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2009: Nil).

There was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration during the year (2009: Nil).

11. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

PRC Enterprise Income Tax has not been provided as the PRC subsidiary incurred a loss for taxation purposes.

		Group	
		2010	2009
	Note	**HK$'000**	HK$'000
Current year provision			
Hong Kong Profits Tax		**78**	241
Overprovision in prior year		**(1)**	–
Deferred taxation	*32*	**(12)**	(17)
Tax expense for the year		**65**	224
Attributable to:			
Continuing operations		**65**	224

Reconciliation of effective tax rate

	Group	
	2010	2009
	%	%
Applicable tax rate	**(16.7)**	(16.5)
Share of losses of jointly controlled entities	**–**	0.1
Non-deductible expenses	**16.4**	19.2
Non-taxable revenue	**–**	(0.1)
Unrecognised tax losses	**0.5**	–
Effective tax rate for the year	**0.2**	2.7

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

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2010 includes a loss of HK$22,763,000 (2009: HK$12,664,000) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the year (2009: Nil).

14. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the net (loss) profit attributable to equity holders of the Company and the weighted average number of the Company's ordinary shares in issue during the year as follows:

	2010 **HK$'000**	2009 HK$'000
For continuing and discontinued operations		
Loss attributable to equity holders of the Company	**(21,452)**	(8,767)
For continuing operations		
Loss attributable to equity holders of the Company	**(21,452)**	(13,441)
For discontinued operations		
Profit attributable to equity holders of the Company	**–**	4,674

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year	**2,081,852,766**	1,479,038,987

Diluted (loss) earnings per share for 2010 and 2009 is the same as basic (loss) earnings per share as the potential ordinary shares under the convertible bonds, share options and unlisted warrants have anti-dilutive effects on the basic (loss) earnings per share.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
Cost			
At 1 January 2009	10	340	350
Additions	–	15	15
Reclassification	(10)	10	–
At 31 December 2009 and 1 January 2010	–	365	365
Additions	–	42	42
At 31 December 2010	**–**	**407**	**407**
Accumulated depreciation			
At 1 January 2009	7	139	146
Depreciation	–	119	119
Reclassification	(7)	7	–
At 31 December 2009 and 1 January 2010	–	265	265
Depreciation	–	88	88
At 31 December 2010	**–**	**353**	**353**
Net book value			
At 31 December 2010	**–**	**54**	**54**
At 31 December 2009	–	100	100

16. INTERESTS IN SUBSIDIARIES

	Note	Company 2010 HK$'000	2009 HK$'000
Unlisted shares, at cost		**1**	1
Due from subsidiaries	*(i)*	**153,665**	147,656
Impairment loss		**(52,842)**	(41,413)
		100,823	106,243
		100,824	106,244

Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ kind of legal entity	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities	Place of operations
Rise Assets Limited	British Virgin Islands/ limited liability company	Ordinary US$1	100%	–	Investment holding	Hong Kong
Wonder Link Limited	British Virgin Islands/ limited liability company	Ordinary US$1	–	100%	Investment holding	Hong Kong
Start Bright Limited	British Virgin Islands/ limited liability company	Ordinary US$200	–	51%	Investment holding	Hong Kong
Huge Step Management Limited	British Virgin Islands/ limited liability company	Ordinary US$100	–	51%	Investment holding	Hong Kong
Palm Learning Co. Limited	Hong Kong/ limited liability company	Ordinary HK$1	–	51%	Inactive	Hong Kong

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ kind of legal entity	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities	Place of operations
Smart Education Company Limited	Hong Kong/ limited liability company	Ordinary HK$100	–	51%	Development and provision of e-Learning services	Hong Kong
Cheer Plan Limited	British Virgin Islands/ limited liability company	Ordinary US$1	–	100%	Investment holding	Hong Kong
Far Glory Limited	British Virgin Islands/ limited liability company	Ordinary US$10,900	–	51%	Investment holding	Hong Kong
Great Wave Limited	British Virgin Islands/ limited liability company	Ordinary US$1	–	51%	Investment holding	Hong Kong
Sky Asia Investments Limited	Hong Kong/ limited liability company	Ordinary HK$1	–	51%	Investment holding	Hong Kong
Beijing LianYiHuiZhong Technology Company Limited	The PRC/ foreign wholly-owned enterprise	Registered capital HK$6,000,000 (2009: HK$2,000,000)	–	51%	Distribution of copyright-protected items and other entertainment-related business	The PRC

In October 2010, the Group disposed of its 51% owned subsidiaries, Sheer Success Limited and its subsidiary, DG Media Limited, to a third party with a gain on disposal of HK$5,000 recognised in the profit or loss.

16. INTERESTS IN SUBSIDIARIES *(Continued)*

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

(i) Due from subsidiaries

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

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2010	2009
	HK$'000	HK$'000
Share of net liabilities	**–**	–

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

Name of jointly controlled entity	Place of incorporation/kind of legal entity	Nominal value of issued ordinary share/ registered capital	Effective percentage of equity indirectly attributable to the Company	Principal activities	Place of operations
Shinning Day Limited	British Virgin Islands/limited liability company	Ordinary US$4	25.5%	Investment holding	Hong Kong
Golden Sino Limited	Hong Kong/ limited liability company	Ordinary HK$1,000	25.5%	Investment holding	Hong Kong
Beijing YiLaiShen Technology Company Limited	The PRC/ foreign wholly–owned enterprise	Registered capital HK$12,000,000 (2009: HK$10,000,000)	25.5%	Provision of copyright management solution and the related consultancy services and the digital content licensing solution	The PRC

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The following table illustrates the summarised financial information of the jointly controlled entities extracted from their unaudited financial statements as of and for the year ended 31 December 2010:

	Summary financial information HK$'000	Group's effective interest HK$'000
Financial position at end of reporting period		
Total non-current assets	**356**	91
Total current assets	**2,399**	612
Total liabilities	**(18,008)**	(4,592)
Total deficits	**(15,253)**	(3,889)*
Operating results for the year		
Revenue	**159**	40
Loss for the year	**(7,793)**	(1,987)*

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

18. GOODWILL

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

	Group	
	2010 HK$'000	2009 HK$'000
At beginning of reporting period, at cost	**109,296**	19,826
Cancellation of convertible bonds and earn-out convertible bonds	**–**	(9,075)
Acquisition of subsidiaries	**–**	98,545
At end of reporting period, at cost	**109,296**	109,296

18. GOODWILL *(Continued)*

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

	Group	
	2010	2009
	HK$'000	HK$'000
e-Learning business, Hong Kong	**10,751**	10,751
e-Licensing business, Beijing	**98,545**	98,545
	109,296	109,296

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

Impairment test on goodwill

Because the long negotiation process between the Group and the telecommunication operators as well as major record labels for the provision of licensed music content on the mobile music platform on an exclusive basis in the PRC, there has been unexpected delay in the development and commencement of the e-Licensing business. However, the formal agreement of obtaining licensed music contents from major record labels and the formal agreement for the provision of licensed music content on the mobile music platform were executed in December 2010. The Group formally launched the business on the mobile platform in February 2011.

The Group appointed an independent professional valuer to perform an appraisal of the market value of the e-Licensing business as at 31 December 2010. The recoverable amount of the CGUs of the e-Licensing business has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by the board of directors covering a 5-year period. Cash flows beyond the 5-year period have been extrapolated using a 3% long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

18. GOODWILL *(Continued)*

Impairment test on goodwill *(Continued)*

The recoverable amounts of the CGU of e-Learning business has been determined based on value-in-use calculations using cash flow projections based on the financial budgets approved by the board of directors covering a 4-year period for the CGU.

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

	e-Learning		e-Licensing	
	2010	2009	**2010**	2009
Gross profit margin	**50%-63%**	50%-76%	**89%-93%**	97%-99%
Average growth rate	**6%-10%**	6%-10%	**20%-23%**	10%
Long-term growth rate	**–**	–	**3%**	2%
Discount rate	**11%**	11%	**23%**	20%

Management determined the budgeted gross profit margin based on past performance and its expectation of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

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

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

19. INVENTORIES

	Group	
	2010	2009
	HK$'000	HK$'000
Finished goods	**246**	143

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables from third parties	**2,709**	1,978	**–**	–
Deposits, prepayments and other receivables	**26,213**	9,696	**211**	212
Loan interest receivable from a subsidiary	**–**	–	**228**	–
	28,922	11,674	**439**	212

In general, the Group allows a credit period of 30 days to its customers upon the presentation of the invoices. Included in the Group's trade receivables balance are debtors with a carrying amount of HK$1,237,000 (2009: HK$1,650,000), which were past due at the end of the reporting period but not impaired as there has not been a significant change in credit quality and part of which has been subsequently settled. These relate to a wide range of customers for whom there is no recent history of default.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Current	**1,472**	328
Less than 1 month past due	**483**	610
1 month to 3 months past due	**680**	598
Over 3 months past due	**74**	442
	1,237	1,650
	2,709	1,978

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

Included in deposits, prepayments and other receivables are advances to a third party of approximately HK$1,342,000 (2009: HK$3,034,000), which are unsecured, interest-free and have no fixed repayment term.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in deposits, prepayments and other receivables are prepayments to licensors of approximately HK$24,080,000 (2009: HK$6,177,532) for the operation of the e-Licensing business.

Because of the delay in commencing the e-Licensing business, the license agreements entered into in current year and prior years had expired and the licensing fee of HK$10,735,000 (2009: Nil) prepaid to these licensors was written off during the year.

21. DUE FROM JOINTLY CONTROLLED ENTITIES/A DIRECTOR OF A SUBSIDIARY

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

The amount due from a director of a subsidiary, Mr. Hsu Tung Chi, is unsecured, interest-free and has no fixed repayment term. The carrying value of the amount due approximates its fair value. Mr. Hsu Tung Chi was appointed as the Company's director on 1 February 2011.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**44,645**	29,052	**40,035**	20,876

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

23. OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income	**2,270**	2,390	**–**	–
Accrued charges and other payables	**1,871**	669	**447**	306
	4,141	3,059	**447**	306

24. LOANS FROM NON-CONTROLLING INTERESTS

Loans from non-controlling interests of a subsidiary were unsecured and interest-free. In October 2010, the Company disposed of this subsidiary together with the loans from non-controlling interests.

25. CONVERTIBLE BONDS

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

	Group and Company	
	2010	2009
	HK$'000	HK$'000
Liability component at 1 January	**24,895**	22,735
Nominal value of convertible bonds issued	**–**	26,903
Equity component	**–**	(5,826)
Liability component at the issue date	**–**	21,077
Redemption of convertible bonds	**–**	(16,801)
Cancellation of convertible bonds	**–**	(861)
Conversion of convertible bonds	**–**	(1,961)
Interest expenses	**1,247**	923
Interest paid/payable	**(40)**	(217)
Liability component at 31 December	**26,102**	24,895
Portion classified as non-current	**(22,174)**	(24,895)
Current portion	**3,928**	–

	Group and Company	
	2010	2009
	HK$'000	HK$'000
Equity component at 1 January	**6,260**	2,836
Convertible bonds issued	**–**	5,826
Redemption of convertible bonds	**–**	(2,075)
Cancellation of convertible bonds	**–**	(47)
Conversion of convertible bonds	**–**	(280)
Equity component at 31 December	**6,260**	6,260

25. CONVERTIBLE BONDS *(Continued)*

(i) In June 2008, the Company had issued 1% convertible bonds with nominal value of HK$18,000,000 (the "First Convertible Bond") and HK$4,000,000 (the "Second Convertible Bond") respectively to acquire 12% equity interest in Far Glory Limited ("Far Glory") and its subsidiaries ("Far Glory Group"). The convertible bonds will mature on the third anniversary from the date of issue.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the 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 Group for the years ended 31 December 2009 and 2010 would not be less than HK$15,000,000), into shares at conversion price of HK$0.18, subject to adjustments, for the period commencing from (1) the date when the Average Guaranteed Profit has been fulfilled or (2) if there is any shortfall between the Average Actual Profit (the actual average of the audited consolidated net profits after tax and extraordinary or exceptional items of Far Glory Group for the years ended 31 December 2009 and 2010) and the Average Guaranteed Profit, the date when the Group is fully compensated by the vendor for any shortfall up to the maturity date.

The First Convertible Bond with nominal value of HK$18,000,000 was early redeemed in full in 2009.

(ii) Upon completion of the acquisition of 21.57% equity interest in Far Glory Group in December 2009, the Company had issued zero coupon convertible bonds with nominal value of HK$26,903,000 to the vendor as part of the consideration. The convertible bonds will mature on the fifth anniversary from the date of issue.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the convertible bonds into shares at conversion price of HK$0.094, subject to adjustments, from the date of issue up to the maturity date.

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

26. EARN-OUT PAYABLE

Earn-out payable as of 31 December 2010 and 2009 represented the partial consideration for the acquisition of 12% equity interest in Far Glory Group payable to the vendor, Mr. Hsu Tung Chi (a director of the Company since 1 February 2011), being the extra convertible bond that shall be issued by the Company if the Average Actual Profit of Far Glory Group is not less than HK$25,000,000. This amount is unsecured, interest-free and shall be payable by the Group subsequent to the year ended 31 December 2010. A director of the Company, Mr. Hsu Tung Sheng has agreed to guarantee in favour of the Group the due and punctual performance of the obligations of the vendor under the agreement dated 5 May 2008 (the "Agreement"). For details of such earn-out payable, please refer to the circular of the Company dated 30 May 2008.

Because of unexpected delay in the business development of the Far Glory Group, the Average Guaranteed Profit may not be achieved. The directors, in accordance with the provisos stipulated in the Agreement, are negotiating with the counterparties about a proposal for the settlement of the shortfall of the Average Actual Profit over the Average Guaranteed Profit as mentioned in note 25(i) to these consolidated financial statements, which may include extension of the time for fulfillment of an agreed guaranteed profit. As no agreement has yet been reached as of the date of these consolidated financial statements, the earn-out payable and the Second Convertible Bond mentioned in note 25(i) to these consolidated financial statements is classified as current liabilities in accordance with the settlement terms agreed with the counterparties in 2008.

27. SHARE CAPITAL

	Note	**Number of shares**	**Amount**
			HK$'000
Authorised:			
At 31 December 2009 and 2010, ordinary shares of HK$0.05 each		4,000,000,000	200,000
Issued and fully paid:			
At 1 January 2009, ordinary shares of HK$0.05 each		1,330,375,080	66,519
Issue of new shares		273,000,000	13,650
Issue of consideration shares		204,329,787	10,216
Conversion of convertible bonds		11,580,776	579
Shares issued upon exercise of share options		121,300,000	6,065
At 31 December 2009, ordinary shares of HK$0.05 each		1,940,585,643	97,029
Shares issued from placing	*(i)*	103,500,000	5,175
Shares issued upon exercise of unlisted warrants	*(ii)*	20,000,000	1,000
Shares issued upon exercise of share options	*(iii)*	131,000,000	6,550
At 31 December 2010, ordinary shares of HK$0.05 each		**2,195,085,643**	**109,754**

27. SHARE CAPITAL *(Continued)*

Notes:

(i) In September 2010, a total of 103,500,000 ordinary shares of HK$0.05 each were issued at a price of HK$0.273 per share. Proceeds of HK$27,196,000, net of issuing expenses, would be applied towards the business development and general working capital of the Group.

(ii) Details and movements of the Company's unlisted warrants are included in note 30 to the consolidated financial statements.

(iii) Details of the Company's share option scheme and the movements of share options under the scheme are included in note 29 to the consolidated financial statements.

All shares issued in 2010 rank pari passu with the existing shares in all respects.

28. RESERVES

Company

	Share premium HK$'000	Contributed surplus HK$'000	Warrant reserve HK$'000	Employee share-based payment reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	68,103	3,047	–	4,354	2,836	(100,888)	(22,548)
Loss for the year	–	–	–	–	–	(12,664)	(12,664)
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	(12,664)	(12,664)
Transactions with owners							
Issue of consideration shares	8,991	–	–	–	–	–	8,991
Issue of convertible bonds	–	–	–	–	5,826	–	5,826
Conversion of convertible bonds	1,662	–	–	–	(280)	–	1,382
Cancellation of convertible bonds	–	–	–	–	(47)	–	(47)
Redemption of convertible bonds	–	–	–	–	(2,075)	876	(1,199)
Issue of new shares	15,015	–	–	–	–	–	15,015
Share issue expenses	(717)	–	–	–	–	–	(717)
Employee share-based payment	–	–	–	6,571	–	–	6,571
Exercise of share options	7,772	–	–	(3,280)	–	–	4,492
	32,723	–	–	3,291	3,424	876	40,314
At 31 December 2009	100,826	3,047	–	7,645#	6,260	(112,676)	5,102

28. RESERVES *(Continued)*

Company

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

Included in employee share-based payment reserve was an amount of HK$1,928,000 (2009: HK$1,928,000) relating to the share options lapsed in previous years due to resignation of certain employees.

Note:

(i) Pursuant to the Companies Law (2004 Revision) of the Cayman Islands ("Companies Law of the Cayman Islands"), share premium of the Company is available for distribution to shareholders subject to certain requirements of Companies Law of the Cayman Islands.

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

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

(iv) The Company did not have reserves available for distribution to the equity holders of the Company as at 31 December 2010 (2009: Nil).

(v) The convertible bonds reserve represents the equity component (conversion right) of the convertible bonds issued (see note 25 to the consolidated financial statements).

(vi) The warrant reserve relates to the private placing of unlisted warrants during the year. Further information about the unlisted warrants is set out in note 30 to the consolidated financial statements.

29. 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.

Details of specific categories of share options are as follows:

Date of grant	Exercise period	Exercise price	Fair value at grant date
		HK$	HK$
28/8/2008	16/9/2008 to 27/8/2018	0.101	0.0323
2/4/2009	2/4/2009 to 1/4/2014	0.059	0.0161
16/12/2009	30/12/2009 to 15/12/2011	0.177	0.0437
13/12/2010	13/12/2010 to 13/12/2013	0.440	0.1037
16/12/2010	16/12/2010 to 16/12/2013	0.475	0.1122

In accordance with the terms of the Scheme, options granted during the financial year ended 31 December 2009 and 2010 were vested at the date of grant.

29. SHARE OPTION SCHEME *(Continued)*

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

	Date of grant			
	2/4/2009	**16/12/2009**	**13/12/2010**	**16/12/2010**
Share price at grant date	0.059	0.175	0.44	0.475
Exercise price	0.059	0.177	0.44	0.475
Option life	5 years	2 years	3 year	3 year
Expected volatility	116.69%	80%	66.26%	66.39%
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	1.578%	0.414%	0.381%	0.381%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

The following table discloses movements of the Company's number of share options held by employees and directors during the years ended 31 December 2009 and 2010:

Year ended 31 December 2010

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

29. SHARE OPTION SCHEME *(Continued)*

Year ended 31 December 2009

Grant date	Exercise period	Exercise price	Outstanding as 1/1/2009	Granted during the year	Exercise during the year	Outstanding as 31/12/2009
		HK$				
Directors						
21/12/2007	18/1/2008-20/12/2017	0.151	12,300,000	–	(12,300,000)	–
28/8/2008	16/9/2008-27/8/2018	0.101	24,000,000	–	(23,000,000)	1,000,000
2/4/2009	2/4/2009-1/4/2014	0.059	–	25,000,000	(25,000,000)	–
16/12/2009	30/12/2009-15/12/2011	0.177	–	50,000,000	–	50,000,000
			36,300,000	75,000,000	(60,300,000)	51,000,000
Employees						
28/8/2008	16/9/2008-27/8/2018	0.101	31,000,000	–	(31,000,000)	–
2/4/2009	2/4/2009-1/4/2014	0.059	–	30,000,000	(30,000,000)	–
16/12/2009	30/12/2009-15/12/2011	0.177	–	80,000,000	–	80,000,000
			31,000,000	110,000,000	(61,000,000)	80,000,000
			67,300,000	185,000,000	(121,300,000)	131,000,000
Exercisable at end of reporting period						131,000,000
Weighted average exercise price			HK$0.110	HK$0.142	HK$0.087	HK$0.176

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.330 (2009: HK$0.098).

The share options outstanding at 31 December 2010 have an exercise price of HK$0.440 or HK$0.475 (2009: HK$0.101 or HK$0.177) and a weighted average remaining contractual life of 2.95 years (2009: 2.01 years).

30. WARRANTS

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

In November 2010, 20,000,000 unlisted warrants were exercised for a total cash consideration, before expenses, of HK$5,440,000.

31. RETIREMENT BENEFITS SCHEME

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The assets of the MPF Scheme are held separately in provident fund managed by independent trustee. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earnings of HK$20,000.

The Group's subsidiary in the PRC also participates in defined contribution retirement schemes covering its full-time PRC employees. The schemes are administered by the relevant government authorities which undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group's PRC subsidiary.

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK$129,000 (2009: HK$74,000).

32. DEFERRED TAXATION

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

	Accelerated tax depreciation	
	2010	2009
	HK$'000	HK$'000
At 1 January	**16**	33
Deferred tax credited to profit or loss	**(12)**	(17)
At 31 December	**4**	16

(b) Unrecognised deferred tax assets

Tax losses of HK$1,331,000 (2009: HK$701,000) arising from the Group's PRC operations can be used to offset against future taxable profits of the respective PRC subsidiary for a maximum of 5 years. The Group has not recognised deferred tax asset in respect of tax losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Year of expiry		
2012	**28**	28
2013	**310**	310
2014	**363**	363
2015	**630**	–
At end of reporting period	**1,331**	701

33. DISPOSAL OF SUBSIDIARIES

The carrying values of the identifiable assets and liabilities disposed of as at the date of disposal are as follows:

	2010 HK$'000	2009 HK$'000
Net assets disposed of:		
Property, plant and equipment	**–**	118
Inventories	**–**	37
Trade and other receivables	**405**	1,894
Bank balances and cash	**56**	239
Due from a director	**–**	7
Due to immediate holding company	**(509)**	–
Trade and other payables	**–**	(4,772)
Loan from non-controlling interests	**(490)**	–
Financial assistance from government	**–**	(1,295)
Non-controlling interests	**264**	–
	(274)	(3,772)
Release of exchange reserve	**–**	69
Gain on disposal of subsidiaries	**5**	4,703
Consideration	**(269)**	1,000
Satisfied by:		
Cash	**240**	1,000
Assignment of amount due to immediate holding company to the purchaser	**(509)**	–
	(269)	1,000

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

	2010 HK$'000	2009 HK$'000
Cash consideration	**240**	1,000
Deposit received in 2008	**–**	(200)
Bank balances and cash in subsidiaries disposed of	**(56)**	(239)
Net inflow of cash and cash equivalents	**184**	561

34. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

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

Connected transactions

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

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

As at 31 December 2010, HK$31,000,000 was drawn down and the related interest income of HK$228,000 was accrued in respect of the facility utilised.

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

Other related party transactions

		Group	
Related party relationship	**Nature of transaction**	**2010 HK$'000**	2009 HK$'000
Key management personnel (excluding directors)	Salaries, allowances and benefits in kind	**535**	100
	Employee share-based payment	**6,175**	971
		6,710	1,071

35. OPERATING LEASE COMMITMENTS

The Group leases an equipment under operating lease. The lease for the equipment is negotiated for a term of 5 years.

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**54**	–
In the second to fifth years inclusive	**186**	–
	240	–

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise convertible bonds, share options, warrants and bank balances and cash. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade and other receivables and other payables, which arise directly from its business activities.

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

	Loans and receivables			
	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets as per consolidated statement of financial position				
Due from jointly controlled entities	**15,706**	9,455	**–**	–
Due from subsidiaries	**–**	–	**100,823**	106,243
Loans to a subsidiary	**–**	–	**31,000**	–
Trade and other receivables	**4,842**	11,674	**439**	212
Due from a director of a subsidiary	**1,585**	1,585	**–**	–
Bank balances and cash	**44,645**	29,052	**40,035**	20,876
Total	**66,778**	51,766	**172,297**	127,331

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

	Financial liabilities at amortised cost			
	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities as per consolidated statement of financial position				
Other payables	**4,141**	3,059	**447**	306
Loans from non-controlling interests	**–**	490	**–**	–
Convertible bonds	**26,102**	24,895	**26,102**	24,895
Earn-out payable	**18,000**	18,000	**–**	–
Total	**48,243**	46,444	**26,549**	25,201

The main risks arising from the Group's financial instruments are credit risk, interest rate risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on the Group's risk management and limits the Group's exposure to these risks to a minimum.

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group resulting in a loss to the Group. The Group's credit risk is primarily attributable to trade receivables and bank balances.

A detailed discussion of the Group's credit risk in respect of trade receivables is set out in note 20 to the consolidated financial statements. The Group only provides services to customers with recognised, creditworthy third parties. Management closely monitors all outstanding debts and reviews the collectibility of trade debtors periodically. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Group does not hold any collateral over these assets.

At the end of the reporting period, the Group had a concentration of credit risk as 4% (2009: 17%) and 16% *(2009: 35%)* of the total trade receivables were made up by the Group's largest customer's and the five largest customers' outstanding balances respectively.

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

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

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.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible bonds.

The undiscounted contractual maturity profile of the Group's financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle the financial liabilities at the end of the reporting period is summarised below:

Group

	2010					2009				
	Total carrying value HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total carrying value HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000
Other payables	4,141	4,141	4,141	–	–	3,059	3,059	3,059	–	–
Loans from non-controlling interests	–	–	–	–	–	490	490	490	–	–
Convertible bonds	26,102	30,903	–	4,000	26,903	24,895	30,903	–	–	30,903
Earn-out payable	18,000	18,000	–	18,000	–	18,000	18,000	–	–	18,000
	48,243	53,044	4,141	22,000	26,903	46,444	52,452	3,549	–	48,903

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

Liquidity risk *(Continued)*

Company

	2010					2009				
	Total carrying value HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total carrying value HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000
Other payables	447	447	447	–	–	306	306	306	–	–
Convertible bonds	26,102	30,903	–	4,000	26,903	24,895	30,903	–	–	30,903
	26,549	31,350	447	4,000	26,903	25,201	31,209	306	–	30,903
Unrecognised loan facility to a subsidiary	–	9,000	9,000	–	–	–	–	–	–	–
	26,549	40,350	9,447	4,000	26,903	25,201	31,209	306	–	30,903

Fair value

The carrying amounts of the Group's and the Company's financial assets and financial liabilities carried at other than fair value are not materially different from their fair value as at 31 December 2010.

37. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 2009.

38. EVENTS AFTER THE REPORTING PERIOD

In January 2011, a wholly-owned subsidiary of the Company entered into an agreement with independent third parties to acquire 25% equity interest of a target group at an aggregate consideration of US$3,810,300 (equivalent to approximately HK$29,720,340), which shall be settled by:

(a) US$2,000,000 (equivalent to approximately HK$15,600,000) in cash; and

(b) US$1,810,300 (equivalent to approximately HK$14,120,340) by procuring the Company to allot and issue 26,100,503 ordinary shares at the issue price of HK$0.54 per share each upon completion.

As at the date of these consolidated financial statements, a deposit of US$500,000 was paid to the vendor for the acquisition.

The principal activities of the target group are the licensing of professional sports events and entertainment content mainly in the PRC. The target group will be accounted for as an associate of the Group upon completion. For details of the acquisition, please refer to the announcement of the Company dated 21 January 2011.