# 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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

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



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

## FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") is pleased to present the audited consolidated financial statements of China Digital Licensing (Group) Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2011 together with the comparative audited figures for the year 2010, as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2011*

| | *Note* | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|---|
| **Turnover** | *3&4* | **29,315** | 6,973 |
| Cost of services rendered and cost of good sold | | **(11,106)** | (2,244) |
| Gross profit | | **18,209** | 4,729 |
| Other revenue | *3&4* | **1,389** | – |
| Other income | *5* | **631** | 40 |
| Selling and distribution costs | | **(539)** | (363) |
| Administrative and other expenses | | **(21,718)** | (21,451) |
| Other operating expenses | | **(34,087)** | (10,735) |
| Finance costs | *6* | **(1,310)** | (1,247) |
| Share of results of associates | | **2,123** | – |
| **Loss before taxation** | *7* | **(35,302)** | (29,027) |
| Income tax expense | *8* | **(49)** | (65) |
| **Loss for the year** | | **(35,351)** | (29,092) |
| **Other comprehensive income:** | | | |
| Currency translation differences | | **180** | 169 |
| Income tax relating to other comprehensive income | | **–** | – |
| | | **180** | 169 |
| **Total comprehensive loss for the year** | | **(35,171)** | (28,923) |
| **(Loss) Profit attributable to:** | | | |
| Equity holders of the Company | | **(37,857)** | (21,452) |
| Non-controlling interests | | **2,506** | (7,640) |
| | | **(35,351)** | (29,092) |
| **Total comprehensive (loss) income attributable to:** | | | |
| Equity holders of the Company | | **(37,765)** | (21,366) |
| Non-controlling interests | | **2,594** | (7,557) |
| | | **(35,171)** | (28,923) |
| **Loss per share** | | | |
| Basic and diluted | *9* | **HK(1.71) cents** | HK(1.03) cents |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2011*

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **6,607** | 54 |
| Intangible assets | | **3,598** | – |
| Interest in associates | | **27,348** | – |
| Interest in jointly controlled entities | | **–** | – |
| Loans to and due from jointly controlled entities | | **9,748** | 15,706 |
| Goodwill | | **75,296** | 109,296 |
| | | **122,597** | 125,056 |
| **Current assets** | | | |
| Inventories | | **300** | 246 |
| Accounts and other receivables | *10* | **54,285** | 30,507 |
| Tax recoverable | | **114** | 163 |
| Bank balances and cash | | **7,256** | 44,645 |
| | | **61,955** | 75,561 |
| **Current liabilities** | | | |
| Other payables | | **12,811** | 4,141 |
| Convertible bonds | | **–** | 3,928 |
| Earn-out payable | | **–** | 18,000 |
| | | **12,811** | 26,069 |
| **Net current assets** | | **49,144** | 49,492 |
| **Total assets less current liabilities** | | **171,741** | 174,548 |
| **Non-current liabilities** | | | |
| Convertible bonds | | **24,246** | 22,174 |
| Earn-out payable | | **18,000** | – |
| Deferred tax liabilities | | **4** | 4 |
| | | **42,250** | 22,178 |
| **NET ASSETS** | | **129,491** | 152,370 |
| **Capital and reserves** | | | |
| Share capital | | **112,655** | 109,754 |
| Reserves | | **8,330** | 36,704 |
| Equity attributable to equity holders of the Company | | **120,985** | 146,458 |
| Non-controlling interests | | **8,506** | 5,912 |
| **TOTAL EQUITY** | | **129,491** | 152,370 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*Year ended 31 December 2011*

### 1. STATEMENT OF COMPLIANCE

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2010 consolidated financial statements except for the adoption of certain new/revised HKFRSs effective from the current year that are relevant to the Company as detailed in note 2 to the consolidated financial statements.

A summary of the principal accounting policies adopted by the Group is set out in note 2 to the consolidated financial statements.

### 2. PRINCIPAL ACCOUNTING POLICIES

**Adoption of new/revised HKFRSs**

*HKAS 24 (Revised) – Related Party Disclosures*

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

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

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

The Group adopted the new definition in its accounting policies but such adoption does not have an effect on the disclosures made in the consolidated financial statements.

*Improvements to HKFRSs 2010 – Improvements to HKFRSs 2010*

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

*Amendments to HKAS 1 (Revised): Presentation of Financial Statements: Clarification of statement of changes in equity*

The Amendments clarify that the reconciliation of each components of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements. The Group has decided to continue presenting the reconciliation on the face of the statement of changes in equity.

**Future changes in HKFRSs**

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

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

## 3. 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 revenue and results

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

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

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

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

**(b) Segment assets and liabilities**

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

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

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

**(c) Other segment information**

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

**(d) Geographic information**

The Group's operations are principally located in Hong Kong and the People's Republic of China ("PRC").

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

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

**(e) Information about major customers**

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

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

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

## 4. TURNOVER AND REVENUE

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

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

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

## 5. OTHER INCOME

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

## 6. FINANCE COSTS

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

## 7. LOSS BEFORE TAXATION

This is stated after charging:

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

## 8. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current year provision | | |
| Hong Kong Profits Tax | **49** | 78 |
| Overprovision in prior year | **–** | (1) |
| Deferred taxation | **–** | (12) |
| Tax expense for the year | **49** | 65 |

## 9. LOSS PER SHARE

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

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

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

Diluted loss per share for 2011 and 2010 is the same as basic loss per share as the potential ordinary shares under the convertible bonds, share options and unlisted warrants have anti-dilutive effects on the basic loss per share.

## 10. ACCOUNTS AND OTHER RECEIVABLES

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Accounts receivable** | | |
| From third parties | **9,830** | 2,709 |
| **Other receivables** | | |
| Deposits, prepayments and other receivables | **2,686** | 2,133 |
| Prepayments to licensors | **41,769** | 24,080 |
| Due from a director of a subsidiary | **–** | 1,585 |
| | **44,455** | 27,798 |
| | **54,285** | 30,507 |

In general, the Group allows a credit period of 30 days to its customers upon the presentation of the invoices.

At the end of the reporting period, the ageing analysis of the accounts receivable (net of allowance for bad and doubtful debts) by invoice date is as follows:

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

## 11. DIVIDENDS

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

## 12. EVENTS AFTER THE REPORTING PERIOD

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

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

## BUSINESS REVIEW

### I. e-Licensing Business

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

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

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

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

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

### II. e-Learning Business

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

The e-Learning platform continues to perform well and increase its penetration into the primary and secondary schools in Hong Kong and Macao. In July 2011, the Group signed a contract with Educational Testing Service of the United States to be the official TOEIC® Tests (Test of English for International Communication) representative in Hong Kong and Macao. TOEIC is the global standard for English-language assessment and it is being used by over 10,000 organisations in 120 countries. Over thousands of TOEIC tests were delivered to over 20 secondary schools during the fourth quarter of the year.

## FINANCIAL REVIEW

## RESULTS

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

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

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

### Liquidity and financial resources

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

Most of the trading transactions, assets and liabilities of the Group are denominated in Hong Kong dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2011, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

## DISTRIBUTABLE RESERVES

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

## 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 minimise exposure to foreign exchange risk, the directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

## CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no material contingent liabilities.

## EMPLOYEE INFORMATION

As at 31 December 2011, the Group had 42 (2010: 40) full-time employees. Employee costs for the year 2011, excluding directors' emoluments, amounted to approximately HK$6,430,000 (2010: HK$10,694,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided. In addition, training and development courses are offered throughout the Group to upgrade employee skills and knowledge.

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

## 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.

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

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

### Other related party transactions

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

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the year ended 31 December 2011 except that the nomination committee was established on 23 March 2012.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2011.

## 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.

## AUDIT COMMITTEE

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

The Group's unaudited quarterly and interim results and annual results for the year ended 31 December 2011 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosure has been made.

## SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditor, Mazars CPA Limited ("Mazars"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars on the preliminary announcement.

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

Hong Kong, 28 March 2012

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

*This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.chinadigitallic.com.*