第1视频® VODONE

Annual Report 2009

VODONE LIMITED

(Incorporated in Bermuda with limited liability)

Stock code: 82

China's Largest

Internet Video Advertising Platform

Corporate Profile

VODone is currently the only Internet video broadcasting new media company listed in Hong Kong. The affiliated company of VODone – VODone Telemedia is a State-owned Enterprise which owns a full set of qualifications and licenses in China's new media industry. It has also obtained the Information Network Communicated Audio-Video Program Licence, Internet News Permit, Value added Telecom Service Operation License, Internet Publication Permit and all other required licenses, ensuring itself a healthy development. VODone has signed a 50 years operational contract with VODone Telemedia, ensuring VODone Telemedia exclusively provides a series of telemedia services to VODone.

VODone is principally engaged in tele-media services ranging from news production, internet-video production and broadcasting, advertising, mobile gaming to mobile lottery. VODone has been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 2006, the stock code is 82.

Key Events 2009

April

VODone becomes the first batch of mobile welfare lottery service provider in China

May

VODone becomes the first real-time live video new media to broadcast a daily program about the Hong Kong stock market

June

VODone announces a share placement raising a gross proceed of HK$79.2 million

July

VODone launches a high frequency lottery "Constant Lottery", with instant internet broadcasting of lottery results

October

- VODone announces a share placement raising a gross proceed of HK$131.6 million
- VODone acquires 70% of Dragon Joyce Group at RMB 168 million to further enhance its leading position in the mobile lottery and gaming business

November

- VODone expands its lottery products to also include sports lottery and single match game.
- VODone becomes a MSCI China small cap index constituent stock

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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Dr. Zhang Lijun *(Chairman)*
Ms. Wang Chun
Mr. Sin, Hendrick
Mr. Li Xiaohua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu (alias Loke Hoi Lam)
Mr. Wang Zhichen
Mr. Wang Linan

AUDIT COMMITTEE

Dr. Loke Yu (alias Loke Hoi Lam) *(Chairman)*
Mr. Wang Zhichen
Mr. Wang Linan

NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

Dr. Zhang Lijun *(Chairman of Nomination Committee)*
Dr. Loke Yu (alias Loke Hoi Lam) *(Chairman of Remuneration Committee)*
Ms. Wang Chun
Mr. Wang Zhichen
Mr. Wang Linan

COMPANY SECRETARY

Mr. Yan Man Sing, Frankie

AUDITORS

BDO Limited

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

PRINCIPAL PLACE OF BUSINESS

Floor 19, No. 66North Four Ring West Road
Haidan District, Beijing
PRC 100080

Room 3006, 30th Floor
Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

WEBSITES AND E-MAIL ADDRESSES

http://www.vodone.com, http://ir.vodone.com
ir@vodone.com, info@vodone.com.hk

STOCK CODE

00082

Zhang Lijun
Chairman

「二零零九　第一視頻　風景這邊獨好！」

Dear shareholders and friends who have placed their trusts and hopes on VODone,

Wish you a wonderful 2010!

In 2009, as China's economy began to bottom out and rebound from the World's financial turmoil, all industries in China began to regain confidence in their operations. During the harsh period, Internet video websites in China had been considerably hit and even forgotten by part of the viewers. After due consideration under such difficult conditions, the management strived to cut costs and opened income sources through extensive exploration of the huge internal potentials within China's Internet video industry, holding the belief that "only the fittest can survive". As a result, VODone was not only unaffected by the tremendous impact of the weak economy and the chaos within and outside the industry, but also managed to obtain financing under such an unfavorable environment. Adhering to the strategy of diversifying into new businesses on the basis of internet video new media, VODone was probably the first to regain profitability in China's internet video industry. In short, through its sincere and great hard work in 2009, VODone has provided Internet viewers in China and our shareholders, customers and partners with an encouraging performance report.

Chairman's Statement

China's Internet video industry is an exciting industry to practitioners because it is vibrant and full of opportunities. However, to put the opportunities into dynamics, practitioners need to be more considerate to the needs of Internet viewers and to meet market demands, to make timely planning and adjustments according to market conditions, to constantly develop new growth points for profits, and to gather all comprehensive advantages of the advanced technologies and extensive platform. "Based on the Internet and do business that makes money" has become a common philosophy of the management. It is on the basis of this starting point that VODone carried out extensive adjustments to its main businesses in 2009 and the resulting performance has proved this to be accurate.

The new lottery business has become a powerful engine of the Group's profitability prospect. In 2009, VODone had rapid development in the lottery business which included China welfare lottery, sports lottery, single match game betting (競彩). In early 2010, several agreements and cooperation arrangements have been reached: an agreement on mobile phone chip software pre-installation with C-Media Group of Taiwan; an exclusive pre-installation agreement with Lenovo Group; cooperation intent with Longcheer Group; and the key business co-operation with China Unicom. Through the acquisition of Dragon Joyce Group by the Group, VODone will launch its pre-installed mobile lottery terminals to the market in a mass scale in early 2010, and is endeavored to become China´s largest operator for mobile lottery.

With the self developed web-based lottery information services and the mobile phone-based lottery sales terminals with security-protection mechanism, VODone's "www.caishijie.com"(彩視界)provided extremely rich, safe, and convenient services to about 100 million lottery buyers in China. Meanwhile, the launch of lottery business based on radio and television systems is gradually developing and under application, and "game lottery" as a fresh concept is rapidly well received by the great number of lottery buyers.

VODone has long noted that there are great differences between contemporary lottery buyers and traditional lottery buyers in terms of nature and characteristics. The "three high" (high education, high income, high consumption) group are gradually entering the area and becoming a truly stable and powerful consumer group. VODone Group's application and development of Mobile Terminals have enabled VODone's mobile games, lottery purchase and entertainment products to quickly occupy China´s huge mobile terminal market, providing China´s about 700 million mobile phone users with true "3G super applications". It is believed that VODone will achieve rapid growth with expected development opportunities in 2010.

The mobile games business of Dragon Joyce Group acquired by VODone Group also contributed to the Group's profits.

Meanwhile, China's e-commerce also has room for development, it is particularly the case for internet video websites, as the combination of network video elements with e-commerce is a combination of lead and purchase and an influential driving force for consumption. "Happy E-go", the first video e-commerce platform created by VODone, is a video-based e-commerce platform built for this feature. This platform developed rapidly during the year offering thousands of products. The launch of the mobile commerce platform will in the future provide VODone with another great market opportunity.

Apart from dynamic new businesses, VODone Live and the VODone BUS advertising platform, 3G wireless business and SNS Communities continued to make impressive contributions to the brand building and revenues of VODone. The steady growth in advertising revenue and especially the recognition from international brands are the best encouragements to the further development of VODone.

In 2009, VODone made its greatest efforts in the hope to reward its loyal and supportive customers, advertisers, close strategic partners and shareholders. And we did it! We can proudly say: VODone played the leading role in 2009!

PROSPECTS

Looking forward to 2010, I have full confidence in VODone.

In 2010, the triple integration（三網合一）of China's telecom network, the Internet and the broadcasting networks have once again been written into the Chinese government's work reports, and was highlighted by Premier Wen Jiabao when he chaired an executive meeting convened by the State Council.

As early as 2009, VODone already made its first attempts in the triple integration. Lottery business is a successful example of displaying the advantages of triple integration by combining the three networks. In 2010, VODone will also continue to pay close attention to the development of the triple integration, and will continue to commit to the rapid promotion of its mobile terminal-based lottery business in China. On the basis of consolidating leadership, the Group will strive to grow bigger and stronger in the entire value chain, so as to achieve resources complementation and synergy effects within the Group. With lottery sales and mobile games as the lead, and occupation of terminals as the main strategy, VODone is endeavored to build an enterprise for operating China´s largest mobile media, mobile commerce and mobile advertisement, and continue to provide China´s Internet viewers, lottery fans and mobile phone users with practical and sincere services, thus forming the notion, "the media creates influences, business creates contributions". Meanwhile, VODone will continue to perform its fidelity duties towards customers and partners, and of course will continue to strive to create the greatest value to our shareholders!

Thank you!

VODone Group
Zhang Lijun
Chairman and CEO

Directors' Report

The directors herein present their report together with the corporate governance report, management's discussion and analysis and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Since late 2006, the Company entered into the tele-media service business in the People's Republic of China (the "PRC") through the acquisition of Clear Concept International Limited ("Clear Concept") and the subsequent establishment of certain operational subsidiaries in the PRC (refer to the Subsidiaries section in note 19 to the financial statements).

RESULTS AND DIVIDENDS

The Group's profit attributable to shareholders for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 96.

SEGMENT INFORMATION

The segment information of the Group for the year ended 31 December 2009 is set out in note 5 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 97 to 98. This summary is for information only and does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with explanations thereof, are set out in notes 28 and 34 respectively to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in Note 28 to the financial statements, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 and page 37 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution were nil (2008: nil). The Company's share premium account in the amount of HK$1,361,496,000 (2008: HK$868,746,000) may be distributed in the form of fully paid bonus shares.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the respective percentages of the Group's purchases and sales attributable to major suppliers and customers are as follows:

(a) Percentage of purchases attributable to:

• the largest supplier	39.33%
• the five largest suppliers	65.24%

(b) Percentage of sales attributable to:

• the largest customer	71.22%
• the five largest customers	92.32%

The largest customer of the Group for the year was Vodone Datamedia Technology Co., Ltd. ("TMD1"). TMD1, a sino-foreign joint-venture company, is 51% controlled by two state-owned enterprises. The Company indirectly owns a 24.99% interest in TMD1, with the balance of 24.01% indirectly held by Dr. Zhang Lijun, a substantial shareholder and Chairman of the Company. Through contractual arrangements as disclosed in the Company's circular dated 18 August 2006, the Group provides tele-media support services to TMD1. Save as disclosed and as far as the directors are aware, none of the directors of the Company, their associates, or shareholders, (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

Directors' Report

CHAIRMAN AND DIRECTORS

The chairman and the directors of the Company during the year and up to the date of this report have been:

EXECUTIVE DIRECTORS:

Zhang Lijun (Chairman)	
Wang Chun	
Sin, Hendrick	(appointed on 2 March 2009)
Li Xiaohua	(appointed on 7 April 2010)
Yue Hong Chu, George	(resigned on 7 April 2010)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Loke Yu (alias Loke Hoi Lam)
Wang Zhichen
Wang Linan

In accordance with the Company's bye-laws, all the directors, including the independent non-executive directors are subject to retirement by rotation. Loke Yu (alias Loke Hoi Lam), and Wang Linan will, in accordance with bye-law 99(A), retire by rotation at the forthcoming annual general meeting of the Company. Loke Yu (alias Loke Hoi Lam), and Wang Linan, being eligible to sit for re-election, intend to offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 102(B), Mr. Li Xiaohua, who was appointed by the directors of the Company on 7 April 2010, shall hold office until the forthcoming annual general meeting and being eligible, shall stand for re-election at that meeting.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

EXECUTIVE DIRECTORS

CHAIRMAN

Dr. ZHANG Lijun, aged 47, holds a Doctoral degree in economics. He is the Chairman of VODone Group, China's Representative to the Asia-Pacific Economic Cooperation ("APEC") Business Advisory Council, Chairman of China APEC Development Council, Vice Chairman of the China Internet Association, Vice Chairman of China Social Workers Association, Vice President of China WTO Research Institute, Honorary President of the Council of Beijing Association of Online Media, Standing Member of China Copyright Council, Professor of Nankai University, Honorary Professor of the University of Sydney, Australia, and an experienced expert in China's Internet media.

Dr. Zhang previously held the following positions: Assistant to the General Manager and Deputy General Manager of International Industrial Company （"國際實業公司"） of the China Minmetals Corporation, which was a company under the then Ministry of Foreign Trade and Economic Cooperation, PRC, and the Deputy Manager of the General Trade Department of the China Minmetals Corporation, Chairman and Party Secretary of Sino-Interest Worldwide Economic Group under the National Development and Reform Commission and Economic Restructuring Office of the State Council, Chairman of Sino-Sky Telecom, etc. He is the spouse of Ms. Wang Chun.

Ms. WANG Chun, aged 45, holds a Doctoral degree in World Economics and is the Chief Operating Officer of VODone Group. She is also the Vice President of the Council of Beijing Association of Online Media, Member of the Central Women's Work Committee of the Central Committee of China Zhi Gong Party, and an experienced expert in Internet trade.

In 1996, Ms Wang spent a long time in the United States and Canada for the business of Sino-Canada International Investment (Group) Company Limited（"加中國際投資集團有限公司"）, for which she served as a Director and Deputy General Manager as well as the Chief Representative of its Beijing Office. In 1998, Ms Wang returned to China and opened China Huatian Net Supermarket（"中國華天超市網"), the first cyber supermarket in China and originator of China's B2B and B2C e-business. She later joined Sino-Sky Telecom, responsible for the management of one of the largest telecommunication value-added business service platforms in China. She was appointed the Chief Operating Officer of Sino-Sky Telecom later. From 2005 to present, Ms Wang has been the Chief Operating Officer of VODone Group. She is the spouse of Dr. Zhang Lijun.

Mr. SIN, Hendrick, aged 35, was appointed as an executive director and Chief Financial Officer in March and May 2009, respectively. Mr. Sin has over 12 years of extensive experience in investment banking and has advised on a wide range of notable equity fund raisings and merger & acquisition transactions involving PRC and Hong Kong corporates, including leading companies in the telecoms/technology, shipping, real estates, retail, energy & resources and health care sectors. Prior to joining the Company, he was a Director of Investment Banking Advisory at HSBC. Mr. Sin graduated from Stanford University with a Master of Science degree in Engineering Economics Systems and Operations Research. He also holds three Bachelor of Science degrees (with college honors) in Computer Science/Mathematics, Economics and Industrial Management from Carnegie Mellon University. Mr. Sin is a member of The Hong Kong Institute of Directors.

Mr. LI Xiaohua, aged 36, has obtained a master degree in IT Project Management from RMIT University, Australia. Mr. Li has over 14 years of experience in strategic planning, operations management, business development and product management. Prior to joining the Group, Mr. Li held senior positions with ASPire Group (卓望科技集團) (a subsidiary of China Mobile Limited), SK Group (a leading telecom operator in South Korea), Globaltainment Pty. Ltd. in Australia (a leading mobile entertainment company in Asia Pacific Region), and ChinaRen Inc. (the first online youth community in China). He joined the Group in September 2009 as the chief executive officer of the Lottery Division and Caishijie Co. Ltd. (www.caishijie.com (彩視界))

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. LOKE Yu (alias LOKE Hoi Lam), aged 61, was appointed as an independent non-executive director of the Company in May 2005 and the chairman of the audit committee of the Company. He has over 35 years of experience in accounting and auditing for private and public companies; financial consultancy; and corporate management. He holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. Dr. Loke is a fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Institute of Chartered Secretaries and Administrators and a member of Malaysian Institute of Accountants. He is currently the Chairman of MHL Consulting Limited and serves as an independent non-executive director of several companies listed on the Stock Exchange of Hong Kong.

Mr. WANG Zhichen, aged 68, was appointed as an independent non-executive director of the Company in August 2007. He obtained his Bachelor's Degree in Biophysics and Agricultural Machinery from Jilin Agricultural University. He had been appointed as the vice commissioner of the Asian and African Division of the Foreign Affairs Bureau, Agricultural Department, the People's Republic of China ("PRC"), the Commissioner and vice general secretary of the China Feed Industry Association, director and vice director of the State Economic Reform Committee, Supervisor of the office of Taiwan affairs. He was also the former supervisor of the International Cooperation Centre of the Economic Reform Office and the former committee member of the State Development Reform Committee. Currently, Mr. Wang is a Director of Middle and Small Enterprise Committee and the Chairman of the Middle and Small Enterprise Work Committee of the China Asia-Pacific Economic Cooperation ("APEC") Development Council.

WANG Linan, aged 61, was appointed as an independent non-executive director of the Company in August 2007. He, graduated in Economic Management of the Central Communist Party School of Management, has more than 14 years of experiences in promotion of science in the PRC. He had worked in the China Association for Science and Technology General Office as deputy division secretary, deputy director of China Association for Science and Technology Popularisation Department City Division, and the vice general secretary of the China Scientific Popularisation Writers Association. Currently, Mr. Wang is the general secretary of the China Scientific Films and Videos Association.

SENIOR MANAGEMENT

Dr. LEE Ka Yam, Danny, aged 49, previously worked in Ogilvy Group (China, Hong Kong and Taiwan) from 1990 to 2008 where he last held the position of vice chairman, chief operating and financial officer. He has extensive experience in strategic management, merger and acquisitions, assurance and financial advisory work, particularly in the areas of marketing communications and media industry. He is also a fellow member of the Chartered Association of Certified Accountants UK, the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England and Wales. He is the Chairman of the Group's subsidiary OWX Holding Co., Ltd..

Dr. Lee obtained a Master of Arts degree in international accounting from the City University of Hong Kong, a Master of Arts degree in English for the professions and a Doctorate degree in business administration, both from the Hong Kong Polytechnic University and a Master of Science degree in electronic commerce and internet computing from the University of Hong Kong.

WANG Yufei, aged 38, has over 12 years experience in internet network development, with specialization in various large scale internet application systems design and operations. He has been involved in the management and technological development of social-network related products, including SNS Communities. He was also the founding members of prominent internet portals operating in China, and was the Chief Technology Officer of Cyworld (賽我網). He joined the Group in January 2010.

Mr. YANG Shuojin, aged 30, Chief News Editor and Director of Operations of VODone Group. Prior to joining the Group, he worked as a journalist, master producer, master director, etc. at radio and television stations. He worked as chief editor and senior group vice president at xilu.com with Legend Group as an investor. He has substantial experience in internet advertising, sponsorship of online events, SP wireless value added services and the production of online programs. Mr. Yang holds a Bachelor of Arts in Literature degree from Liaoning University and a LLM degree from Jinin University. He joined the Group in April 2010.

Mr. KWOK Chi Keung, Andy, aged 42, is the Financial Controller of the Company. He has over 17 years' experience in accounting, auditing and financial management. He holds a Bachelor of Science in Economics and is a Certified Public Accountant (Practising) in Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Before he joined the Company in 2008, he was the financial controller of two listed companies on the main board of the Stock Exchange of Hong Kong.

Mr. YAN Man Sing, Frankie, aged 52, Company Secretary, is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Corporate Finance Committee of the Institute. Mr. Yan joined the Company in late 2007.

Ms. WANG Xiang, aged 35, is the General Manager of Finance of the Company. Ms. Wang is a Certified Public Accountant in the PRC. Before joining the Group, she served a foreign mobile technology company for more than 5 years as a finance in-charge where she accumulated extensive corporate finance and management knowledge in telecommunication and value added service industry. Besides, having taken part in several major audits in her role as an external auditor, she has accumulated invaluable experiences which have made her an all-rounded accountant. Ms. Wang holds a Bachelor's Degree in Business Management of Beijing Normal University. She joined the Group in 2006.

Mr. PENG Xitao, aged 31, is the Chief Engineer of the Company. During his academic and professional years, Mr. Peng has concentrated on the research studies, development and establishment of security control, internet backbone and administration of internet operations. In addition, he provided solutions to clients in various aspects relating to the internet operation and interfaces. Mr. Peng joined the Group in 2006. Prior to that, he worked for China Unicom, Beijing where he was awarded for outstanding achievement based on his contributions to the internet infrastructure establishment. Mr. Peng holds a Bachelor's Degree in Computer Communication of Posts and Computer Telecommunications and a Master's degree in Computer Applications from Nankai University.

Mr. WANG Chunyu, aged 41, a doctorate holder, joined VODone Group in July 2007 as the Chief Audio-Visual Advertising Technical Officer of TMD2. He was formerly the Technical Director of Software Operations Development Department of Peking University and the Technical Director of KUCCO.

DIRECTORS' SERVICE CONTRACTS

Mr. Li Xiaohua will enter into a service agreement with the Company in relation to his appointment as an executive Director. Mr. Li Xiaohua has entered into a three-year employment contract with a subsidiary of the Company effective from 14 September 2009.

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2009, the directors and their associates had the following interests in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

(A) LONG POSITION IN THE ORDINARY SHARES OF THE COMPANY:

Name of director	Capacity	Number of ordinary shares held	% of total issued share capital
Zhang Lijun	Beneficial owner/Interest of spouse	339,467,376 (Note 1)	14.98%
Wang Chun	Beneficial owner/Interest of spouse	339,467,376 (Note 2)	14.98%
Yue Hong Chu, George	Beneficial Owner	4,000,000	0.18%
Sin, Hendrick	Beneficial Owner	6,000,000	0.26%
Wang Linan	Beneficial owner	1,000,000	0.005% (Note 3)
Wang Zhichen	Beneficial owner	1,000,000	0.005% (Note 3)

Note 1: Of these 339,467,376 shares, 329,767,376 shares are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 9,700,000 shares through the interest of his spouse, Ms. Wang Chun.

Note 2: Of these 339,467,376 shares, 9,700,000 shares are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 329,767,376 shares through the interest of her spouse, Dr. Zhang Lijun.

Note 3: Calculated by rounding to three decimal places.

(B) LONG POSITION IN UNDERLYING SHARES OF THE COMPANY:

Name of director	Capacity	Number of underlying shares in respect of the share option granted	% of total issued share capital
Zhang Lijun	Beneficial owner/Interest of spouse	17,600,000(Notes 1,2)	0.90%
Wang Chun	Beneficial owner/Interest of spouse	17,600,000(Notes 1, 3)	0.90%
Yue Hong Chu, George	Beneficial Owner	1,500,000(Note 1)	0.07%
Sin, Hendrick	Beneficial Owner	19,650,000(Note 1)	0.87%
Li Xiaohua	Beneficial Owner	3,800,000	0.17%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	605,000(Note 1)	0.09%

Note 1: Details of the above share options granted by the Company are set out in note 34 to the financial statements.

Note 2: Of these 17,600,000 share options, 7,000,000 share options are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 10,600,000 share options through the interest of his spouse, Ms. Wang Chun.

Note 3: Of these 17,600,000 share options, 10,600,000 share options are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 7,000,000 share options through the interest of her spouse, Dr. Zhang Lijun.

Save as disclosed herein, as at 31 December 2009, none of the directors or the chief executive of the Company and their associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Same as disclosed in the section above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on 7 June 2002 (the "Scheme"), the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The Scheme is effective for the period from 7 June 2002 to 6 June 2012. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the Scheme (the "General Scheme Limit") provided that, inter-alia, the Company may seek approval of the shareholders at a general meeting to refresh the General Scheme Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme may not, subject to shareholders approval, exceed 30% of the share capital of the Company in issue from time to time.

On 2 March,2009, a total of 17,000,000 share options were granted to a director and entitled the director to subscribe for ordinary shares at an exercise price of HK$0.157 per share. The options are exercisable during the period from 2 March 2009 to 1 March 2012.

On 1 April, 2009, a total of 5,000,000 share options were granted to a consultant and entitled the consultant to subscribe for ordinary shares at an exercise price of HK$0.153 per share. The options were exercisable during the period from 1 April 2009 to 31 March 2012.

On 7 August 2009, a total of 20,000,000 share options were granted to eligible participants to subscribe for ordinary shares at an exercise price of HK$1.17 per share with an exercise period from 7 August 2009 to 6 August 2014.

On 12 October 2009, a total of 20,000,000 share options were granted to two directors and other eligible participants to subscribe for ordinary shares at an exercise price of HK$1.68 per share with an exercise period from 12 October 2009 to 11 October 2014.

DIRECTORS' INTERESTS IN CONTRACTS

Except for those transactions set out in note 35 to the financial statements, no director had a beneficial interest in any material contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, save as disclosed below and other than the directors of the Company whose interests are disclosed above, the Company was not aware of any persons who, had any interests or short positions in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO.

Name of person	Capacity	Long position	Number of shares held	Approximate percentage of shareholding
Mr Daniel Saul Och	Interest of controlled corporation (Note 1)	Long position	117,496,000	5.18%
Och-Ziff Capital Management Group LLC ("Och-Ziff Capital")	Interest of controlled corporation (Note 1)	Long position	117,496,000	5.18%
OZ Management, L.P. ("OZ Management")	Investment manager (Note 1)	Long position	117,496,000	5.18%

Note 1: Och-Ziff Holding Corporation ("Och-Ziff Holding") was the sole general partner of OZ Management, and Och-Ziff Capital was in turn the sole shareholder of Och-Ziff Holding. Mr Daniel Saul Och controlled approximately 78.02% of the voting power at general meetings of Och-Ziff Capital. OZ Management, Och-Ziff Holding, Och-Ziff Capital and Mr Daniel Saul Och were all deemed to be interested in the shares of the Company under the SFO.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions, further details of which are included in note 35 to the financial statements. The directors believe the relevant disclosure requirements in Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") is met.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors and of the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the principles of the code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules except those deviations identified in the Corporate Governance Report for 2009 which is set out under a separate heading in the said report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in accordance with the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises the three independent non-executive directors of the Company.

AUDITORS

The financial statements have been audited by BDO Limited.

On behalf of the Board

Zhang Lijun
Chairman

Hong Kong
25 March 2010

The Company is committed to achieving and maintaining statutory and regulatory standards and adhering to good corporate governance in the conduct of its business. The Company has applied and has, save for the deviations and reasons thereof as discussed below, been in material compliance with the principles of the Code provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2009.

The Board believes that good corporate governance is essential in enhancing the confidence of the current and potential shareholders, investors and business partners and is consistent with the Board's pursuit of value creation for the Company's shareholders. This Corporate Governance Report is prepared in material compliance of the reporting requirements as contained in Appendix 23 of the Listing Rules.

The Directors acknowledge that they are responsible for overseeing the preparation of accounts for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2009, the Directors have, among other things:

- Selected suitable accounting policies and applied them consistently;
- Approved adoption of all Hong Kong Financial Reporting Standards ("HKFRSs") which are in conformity with the International Financial Reporting Standards ("IFRSs"); and
- Made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis.

THE BOARD

The management and control of the business of the Company ultimately vests with the Board. The Board sets long term direction and objectives and oversees the management's plans and strategies for the delivery of results. The Board may delegate its responsibilities or functions to Board Committees and the day-to-day operation to management and ensures appropriate human and financial resources are appropriately applied and that the performance for the achievement of results is evaluated periodically. The Board approves all significant transactions and publication including annual report, interim report, circulars and announcements. In cases where shareholders' approvals are required, the Board resolves to convene the necessary shareholders meetings to seek shareholders' approval. Every Director is committed to carry out his duty in good faith, act honestly with due diligence, skill and care and in the best interest of the Company and its shareholders at all times.

As at 31 December, 2009, the Board comprises seven members (31 December 2008 – six members), four of which are Executive Directors and three are independent non-executive Directors. Collectively, they bring a broad range of commercial, financial, technology, management and stewardship experience and varied skills, expertise and qualification for leading and directing the Group's affairs. The Directors biographical details and other information are set out in the "Directors' Report" section of the Annual Report. In accordance with the Bye-laws of the Company, the Board members elect among themselves a Director to be the Chairman of the Board. Dr. Zhang Lijun has been the Chairman of the Group since 8 December 2006.

According to the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this annual report, the Board has not appointed an individual to the post of chief executive officer. The role of the chief executive officer has been performed collectively by all the executive directors, particularly by the chairman, of the Company.

The Board considers that this arrangement is appropriate and cost effective in the initial phase of development of the Group and allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies. Going forward, the Board will periodically review the effectiveness of this arrangement and considers appointing an individual as chief executive officer when it considers appropriate. All new Directors appointed to fill casual vacancies of the Board are subject to election by the shareholders of the Company at the first general meeting after their appointments. In accordance with the Bye-laws and practice of the Company which conform to the requirements of the Listing Rules, one-third of Board members are required to retire by rotation each year at the Annual General Meeting provided that every Director shall be subject to retirement at least once every three years. Directors, who retire, if eligible, may sit for re-election at the same Annual General Meeting.

All Board and Committee meetings adhere to a formal agenda set in advance for consideration/resolution. All Directors may arrange to include matters on the agenda for consideration at Board meetings. Board materials are provided in advance of the meetings and detailed minutes are prepared and made available to all Directors. The Directors have access to the advice and services of the Company Secretary and if necessary, have recourse to external professional advice at the Company's expense. During the intervals between Board meetings, individual Directors are being kept informed of major developments of the Group by the Chairman and the Company Secretary.

ATTENDANCE OF DIRECTORS AT BOARD AND COMMITTEE MEETINGS

During the year, the Board had held 6 regular meetings, 2 audit committee meetings, 1 remuneration committee meeting and 1 nomination committee meeting. The attendance of individual Directors at the Board meetings and the Board Committees is set out in the table below.

	Number of Times Meetings Attended/ Meetings Held			
	Regular Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Zhang Lijun	6/6	n/a	1/1	1/1
Wang Chun	6/6	n/a	1/1	1/1
Yue Hong Chu, George	6/6	n/a	n/a	n/a
Sin, Headrick[(1)]	6/6	n/a	n/a	n/a
Independent Non-executive Directors				
Wang Zhichen	6/6	2/2	1/1	1/1
Wang Linan	6/6	2/2	1/1	1/1
Loke Yu alias Loke Hoi Lam	6/6	2/2	1/1	1/1

Notes:

(1) appointed on 2 March 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company believes that the Independent Non-executive Directors as a group comprises a good mix of professional and business executives who have significant exposure to the business and accounting environment of Hong Kong and the PRC. The Board believes that such a group is ideally qualified to provide independent advice and guidance to the Board, to serve on the Board committees and to act as independent stewards of the Company for the interests of its shareholders. The Board evaluates the independence of all Independent Non-executive Directors on an annual basis and established the practice of requesting written confirmation from each Independent Non-executive Director regarding his independence. Throughout the year in review and as at the date of this report, the Board is satisfied that all such Directors are in full compliance with the independence guidelines as laid down in the Listing Rules. However, the Independent Non-executive Directors are not appointed for a specific terms as their appointments are automatically renewed on an annual basis after the first anniversary. Nevertheless, the Independent Non-executive Directors are subject to the three-year rotation rules for retirement and re-election by the shareholders as required by the Company's Bye-laws.

BOARD COMMITTEES

The Board has established the Audit Committee since 1999, the Remuneration Committee in 2007 and the Nomination Committee in 2008.

AUDIT COMMITTEE

The Audit Committee was set up in 1999 and currently comprises the three Independent Non-executive Directors. The Audit Committee provides the Board with advice and recommendations on accounting, reporting and internal control matters and acts as a formal liaison channel for review, communication and problem resolution between the Company and its auditors. The Committee members collectively hold the relevant commercial, industry, financial and auditing experience necessary for the Committee to function effectively and independently. For the composition and biographical details of the members of the Audit Committee, please refer to the "Directors' Report" section of the Annual Report. The Audit Committee's primary functions include:

- to recommend to the Board on the appointment, terms of engagement of the external auditor;
- to review and monitor the appropriateness of accounting policy, accounting practices, financial reporting and disclosure and the application of judgement and estimates related thereto;
- to review the company's annual and interim reports and any opinion expressed by the external auditor;
- to review any related party transactions and connected party transactions for compliance with the requirements of Listing Rules and for reasonableness and fairness to the Company and its shareholders;
- to review with the external auditor issues raised in the external auditor's management letter, queries or similar communications; and
- to monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.

The Audit Committee had met twice in 2009 and members of the Committee also actively participated at the full Board or any Independent Board Committees formed from time to time for the purpose of advising the independent shareholders of the Company of transaction(s) which require their input or contributing their independent views in areas of business, financial, management and operating practices.

AUDIT AND RELATED FEES

During the year under review, the fees paid or payable to the Group's external auditor BDO Limited were as follows:

Audit	$740,000
Non-audit services:	Nil

INTERNAL CONTROL

The Board is entrusted with the overall responsibility for establishing and maintaining effective internal control systems for the Group. The management of the Group is delegated with the responsibility from time to time to implement and maintain the Board's policies on risk management and control. Detailed procedures are developed by management for major business units. At least annually, the significant internal control system is reviewed with the Company's auditor. The Group's internal control systems are designed to provide cost effective and reasonable protection that safeguards the Group's assets and maintains the integrity of the accounting and reporting systems. The Group emphasises the appointment of qualified, experienced and capable individuals to carry out critical control functions and has put in place a system for effective segregation of key duties and responsibilities. The Board and the Audit Committee periodically evaluate major controls and risks and where considered necessary, retains external professional services to evaluate or seek improvements to the internal control systems. The Audit Committee provides independent advice to the Board and assists in the review of the internal control issues and to liaise with external auditor and consultants as appropriate.

REMUNERATION COMMITTEE

The Remuneration committee was set up in 2007. The Chairman of the Remuneration Committee is Dr. Loke Yu, other members are Dr. Zhang Lijun, Ms. Wang Chun, Mr. Wang Linan, Mr. Wang Zhichen. The majority being independent non-executive directors of the Company. It recommends to the Board on the Company's policy and structure for all remuneration of the Board member and senior management, on the establishment of a formal and transparent procedure for developing policy on such remuneration and to determine specific remuneration packages for the Company's directors and senior management.

The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. In setting remuneration packages, the Company takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual directors. Individual Director and Executive would not be involved in deciding his own remuneration. The specific written terms of reference follows closely the requirements of the code provisions of the Code.

NOMINATION COMMITTEE

Terms of reference for the Nomination Committee has been established. In making decisions on nomination of Directors, the Committee adopts certain criteria to assist in its evaluation which included the candidate's academic, professional and business background, his past responsibility, exposure to the business environment in which the Group operates and intend to be engaged in and his experience including directorship or senior management level involvements with other entities, and his contribution or achievement to the Group. The Company follows the practice that all the Directors would be subject to retirement by rotation and would be subject to re-election by the members of the Company according to its Bye-laws amendments. For any Director appointed by the Board to fill casual vacancies of the Board, the Company also follows the practice of seeking shareholders' re-election and approval at the next general meeting of the members of the Company.

CODE OF CONDUCT

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based primarily on the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all the relevant persons as defined in the Code, including the Directors of the Company, any employee of the Company, or a Director or employee of a subsidiary or holding company of the Company who, because of such office or employment or involvement, are likely to come into contact or be in possession of unpublished price sensitive information in relation to the Company or its securities. Specific enquiry has been made of all the Directors of the company who have confirmed their compliance with the required standards set out in the Code of Conduct during the year under review and up to the date of this Report.

DIRECTORS' INTERESTS

Full details of individual Director's interests in the shares, share options and interest in securities of the Company are set out in the "Directors' Report" and in note 34 to the financial statements.

DIRECTORS' AND AUDITOR's RESPONSIBILITIES FOR ACCOUNTS

Directors' and the auditor's respective responsibilities to the shareholders in respect of the financial statements are included in the "Independent Auditor's Report".

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company attaches great priority to open and effective communications with its Shareholders and potential investors on the development of the Company either through annual report, interim report, circulars and announcements. In addition, key executives of the Company participated conferences and forums with the objective of promoting investor and stakeholder interests in the Group's businesses. The Directors regard all meetings with its shareholders to be very important as they offer opportunities for direct communication with the shareholders. When appropriate, presentations would be made at general meetings for the purposes of keeping shareholders informed of corporate developments.

OPERATING RESULTS

Turnover of the Group was HK$298,702,000 an increase of around 353%, compared to last year of HK$65,922,000 The turnaround of the results of the Group is principally attributable to the improved performance of the tele-media business of the Group as well as the contributions of new businesses in 2009 including lottery related business and mobile gaming business.

OPERATION REVIEW

VODone focused mainly on the development of the tele-media, lottery related and mobile gaming businesses in 2009.

TELE-MEDIA BUSINESS

VODONE ON-LINE ADVERTISING PLATFORM (BUS.VODONE.COM)

VODone BUS, the major build-out by VODone in the past few years, is named as the largest Internet video advertisement display platform in China, and continued to be one of the key revenue generators for VODone in 2009. VODone BUS underwent many new developments and breakthroughs during the year.

In respect of the advertising formats: Besides keeping the original formats such as video, texts and flash, VODone BUS added new formats such as streaming media and pop-up video, and will continue to explore new models in combination with advertising formats including SNS and BBS.

In respect of the advertising broadcasting: On the basis of the eight major channels including Brand Channel, Finance Channel and Sports Channel, VODone BUS strengthened the cooperation with portals, prominent websites in all industries and local portals in order to meet the demands of both small and medium-sized enterprises and brand customers for advertising broadcasting. Although the PRC government increased efforts to supervise websites in the second half of 2009, resulting in the decrease in website traffic flow and increase in the closing of more websites, VODone BUS recorded an increase in both the number of partners and website traffic flow.

In respect of the advertising revenue, affected by the financial crisis, customers might spend less on traditional media and instead focused their budgets on Internet media. Under these circumstances, VODone BUS recorded an increase in new advertising formats and website traffic flow, attracting more advertising customers.

VODONE PORTAL (WWW.VODONE.COM)

Being one of the leading internet video portals in the PRC, VODone Portal (www.vodone.com) provides varieties of contents including news, sports, entertainment, life style, finance and films. Its advantage of the video technology ensures video clarity and fluency. In the second half of 2009, the Film Channel cooperated with CCTV6, the film channel of PRC CCTV, in "Love Series" such as "Love Shooting Films" and "Love Drawing Films". The broadcasting of six series of programs of CCTV's film channel on VODone's Film Channel received praise and applause from netizens. In early 2010, with its high-quality video technology, VODone's Film Channel broadcasted "Only the Scenery on This Side is Beautiful" live. The first Internet Spring Festival Gala organized by VODone not only made the best of its advanced video technology in comprehensive application, but also attracted a number of advertising agents' attention and cooperation.

VODONE LIVE (LIVE.VODONE.COM)

One big feature of VODone is its self-created video programmes and live broadcasting of such programmes with online interactions. VODone provides a great number of channels for 338 million Chinese netizens to choose from. In May, 2009, VODone launched two self-produced live programmes, "HK Stock Express"「港股直擊」and "A Share Focus"「A股縱橫」(http://v.vodone.com/gu). VODone was the first real-time live video new medium to broadcast programmes about the Hong Kong stock market.

VODONE ONLINE SHOPPING PLATFORM (EGO.VODONE.COM)

"Happy E-go" is a new concept Internet video stylish shopping mall launched on the VODone's strong Internet video broadcasting platform and is the first shopping platform launching video reality shows in China. Beginning as a video shopping platform mainly selling underclothes in late 2009, "Happy E-go" has developed itself into an integrated stylish shopping platform focusing on white-collars in modern cities. With the diversified development of the product range, there are now almost 100 sales brands and more than 1,000 categories of products. A large number of products, reasonable prices and regular promotional activities have increased customers' enthusiasm.

Based on VODone's Internet platform. "Happy E-go" has advantage of strong Internet brand effect and advanced Internet video technology. Both have provided convenient conditions for the E-go shopping mall. With its own brand features, "Happy E-go" is also gradually becoming an Internet shopping mall leader in a new period. It integrates visual effects and practicality and displays the characteristics of products to the greatest extent within the shortest possible time. This allows customers to gain realistic experience as if they went shopping in person at the mall, thus raising the experience of Internet shopping to a new level.

LOTTERY RELATED BUSINESS

VODONE LOTTERY SERVICES

On 27 April, 2009, VODone became one of the first authorized service providers of mobile lottery betting service for mobile end users in China. The Group has also opened the "www.caishijie.com" portal named "Lottery View"（彩視界）broadcasting lottery related news and information exclusively supplied by China Association of Social Workers and China Philanthropy Times. VODone and China Philanthropy Times have together launched the "Expert Lottery Comments"（專家説彩）channel, providing lottery news.

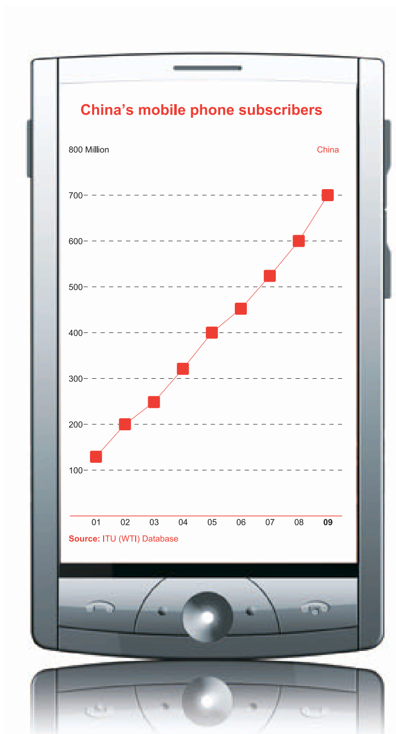
Mobile lottery has the advantage of surpassing other traditional purchasing methods by which players can make their purchasing decision whenever and wherever. Players simply need to register, log-in and download the lottery software from "www.caishijie.com" in order to study lottery information, place their bets, check their account balance, self-pick the lottery numbers or quick-pick the numbers through their handsets. In addition, the system is developed to enable the safety in achieving paperless lottery services, therefore, there is a special process of bundling the mobile number and identity card number as the certification information of user registration. There is a unique safety code generated for each lottery ticket by the Welfare Lottery Center which is incomparable in nature.

On 8 July, 2009, VODone and Heilongjiang Welfare Lottery Center launched "Constant Lottery"（時時彩） (http://ssc.caishijie.com/). "Constant Lottery" is a type of lottery with fast pace, digit-based, fixed winning rate betting. It has 84 runs every day, approximately every 10 minutes for each drawing from 10:00 a.m. to midnight 12:00, VODone provides instant Internet broadcasting of Constant Lottery drawing results on its website. The "Electronic Lottery Drawing System" has smoothly passed the authentication by the expert panel comprising professors from the State Key Laboratory of Information Security of Chinese Academy of Sciences and Harbin Engineering University. The system ensures the safety and reliability of Constant Lottery. Meanwhile, "Constant Lottery" also provides an

Management Discussion and Analysis

important channel for China welfare funding. It has drawn overwhelming attention from nationwide Chinese lottery fans and netizens since its debut on 8 July 2009. Deemed as a core supporting business of China's welfare service, lottery has already been developed as a major income in contributing to the well being of the community.

VODone's Lottery View（彩視界）has since its establishment broadened its coverage from merely Welfare Lottery to Sports Lottery and Single Match Game, covering all lottery categories in November 2009. VODone has also further been authorized by lottery centres in major provinces in China, and has now established in-depth cooperation with 15 lottery centres in 12 provinces of China. In order to understand and capture the needs of users, VODone held press conferences in Beijing, HeBei and JiNan to educate and allow users to share their lottery experiences with VODone. Lottery View has also been recently in collaboration with China Unicom on forming an important business cooperation at wo116114 Unicom gateway web Lottery Channel, wo116114 gateway wap Lottery Channel and Unicom customized iphone mobile wo116114 Lottery Channel, all these projects have come on-line. The registered users for Lottery View have soared to over 5 million as of 31 December 2009. The first VODone Single Match Game Lottery shop outlet has also been opened in Tian He District, Guangzhou, PRC in February, 2010.



According to an authoritative source of data, the sales income of lottery (welfare and sport) for 2008 in Mainland China was RMB106 billion, including RMB60.4 billion from welfare and RMB45.6 billion from sport lottery. The overall sales of lottery in China in 2009 amounted to RMB132.4 billion, an increase of 25% compared to that of 2008. In 2009, RMB75.58 billion welfare lottery and RMB56.88 sports lottery was sold, raising RMB41.3 billion for China's welfare fund. During the 11th National Games alone, over 2.4 billion of sport theme lotteries were sold. As the 2010 South Africa World Cup, 2010 Guangzhou Asian Games and NBA games in the USA take place, Single Match Sports Betting are also expected to increased tremendously, driving lottery sales up to an even higher level. In July 2009, The State Council of the People's Republic of China released the Law Governing Lottery Business. Deemed as core supporting business of China's welfare service, lottery has already been developed as a major financial and tax income in contributing to the well being of the community.

With the increase of mobile handset users utilizing mobile games and mobile lottery, this would not only be beneficial to VODone, but would also be an advantage to the PRC's welfare as a whole as a result of the income lottery contributes.

MOBILE GAMING BUSINESS

In October 2009, VODone acquired 70% interest in Dragon Joyce Limited ("Dragon Joyce Group"), which is principally engaged in the development and provision of mobile gaming. Dragon Joyce Group develops mobile game platforms for stand-alone games, web games and online games, as well as entertainment software distribution platforms. Dragon Joyce Group has an extensive distribution network and has established business relationships with over 400 Chinese-brand mobile handset developers and manufacturers. At present in the PRC, there are over 700 million mobile phone subscribers and a major portion of this market is occupied by Chinese-brand mobile handsets. The volume of Chinese-brand mobile handsets is expected to maintain continuous growth as the PRC government has directed policies to promote household electrical appliances to rural areas, including low-cost mobile handsets. Through effective distribution channels, there are over 7 million active paying accounts for the games of the Dragon Joyce Group. Given the embedded nature of the games within the mobile phones, the continued growth in mobile phone subscribers and the tremendous growth prospects of mobile games, the Directors believe that the Dragon Joyce Group has good prospects.

As at December 2009, the overseas business of Dragon Joyce Group has expanded to 83 countries worldwide, with coverage in developed countries including Europe and USA, and developing countries in South East Asia, South America and Africas. Through combining with the Dragon Joyce Group's extensive distribution network of over 400 mobile handset developers and manufacturers distributing its games to over 1.5 million new mobile handset users each month, VODone is in a much stronger position to capture the mobile and gaming and lottery market. Such acquisition also added to the Group's mobile lottery platform with immediate access to a significant pool of potential lottery users and maintains a leading position in mobile gaming.

Furthermore, VODone Telemedia entered into an exclusive strategic partnership with Cmedia of Taiwan in January 2010. Through cooperation with iPeer, to which Cmedia and Mediatek ("MTK") are shareholders, VODone Telemedia becomes the exclusive strategic partner of Cmedia and iPeer's integrated mobile entertainment platform on MTK and other local and international branded mobile handsets. In this cooperation, Cmedia will be responsible for the platform's research and development, application layer, mobile client

technology development, and marketing, whilst VODone Telemedia will be responsible for providing an authorized lottery and entertainment value-added business and payment gateway system. Both parties are working together with an aim to build up the largest mobile lottery and entertainment platform in the PRC.

Currently there are about 700 million mobile users in the PRC with a sales volume of about 200 million mobile phones per annum. Such is believed to have paved a way for a substantial future business and earnings growth for VODone.

RECENT AWARDS:

AWARDS AND CERTIFICATES OBTAINED BY VODONE

- January 2009 Becoming a Standing Member of the China Institute of the World Trade Organization (2005-2008)
- February 2009 Being awarded "Organization Award" for the 4th Spring Festival Greeting Message of K-Touch SX4 Cup
- March 2009 Being awarded "Award for New Media Contribution to China Advertisement in 2008-Internet Video Advertising Award" (China Advertisement & Brand Meeting for 2009)
- June 2009 "Chinese New Media Contribution Prize 2009" – General Assembly and Dissemination of Chinese brands Contribution Award
- 2009 VODone web site's "Changan Forum" series seminars were accredited as "Outstanding Theme Series Seminars" by "Online Auditorium" for the period between February and June 2009 (Beijing Internet Management Office)
- 2009 VODone web site was awarded the "Award for Excellent Organization" by "Online Auditorium" for the period between February and June 2009 (Beijing Internet Management Office)
- September 2009 Beijing Zhigong Charitable Special Fund Donation Certificate
- September 2009 2009 First China Netizen Culture Festival Best Organization Award
- October 2009 2009 Contributions to Discipline and Governance for China's Internet Industry Award "China Internet Power Star"
- October 2009 "National Vertical Web Site Top 10 Energetic Brand Award"
- October 2009 Becoming the Chairman-in-Office Unit of the Council of National Internet Communication Union

- October 2009 60th Anniversary of the Founding of New China Internet Communication Innovation Award
- December 2009 Top 500 Chinese Enterprise in 2009.
- 2009 "Best Organization Award for "Painting and Calligraphy, Photography and Singing Contest for Greeting the Spring Festival"

AWARDS AND CERTIFICATES OBTAINED BY DR. ZHANG LIJUN, CHAIRMAN OF THE BOARD OF VODONE

- 2009 Vice Chairman of China Internet Association
- 2009 Excellence in Achievement of World Chinese Youth Entrepreneurs
- "China's Top Ten Innovative Media Figures 2009" - General Assembly and Dissemination of Chinese brands Contribution Award

AWARDS AND CERTIFICATES OBTAINED BY WANG CHUN, CHIEF OPERATING OFFICER OF VODONE

- 2009 New Media Leaders in China
- 2009 National Local Web Site Top 10 Prominent Leaders Brand Award (China Internet Brand Conference)
- 2009 Being awarded "China AD100 Person of the Year"

FINANCIAL REVIEW

REVENUES

The tele-media business contributed a revenue of HK$217,263,000 to the Group for the year 2009, an increase of 230% from 2008. Such increase in revenue was mainly due to the growth of advertising market in the second half of 2009, following a recovery of global economy and the strengthen of our advertising platforms and sales organization and continue enrichment in contents.

The lottery-related business contributed a revenue of HK$64,481,000 to the Group for the year 2009, it was a new business segment of the Group introduced in April 2009. Revenue from lottery related business comprises service and advertising incomes. Such new revenue has formed an important segment of our overall revenue in 2009 as a result of the rapid growth of the Group's lottery subscribers, the enhancements in the Group's brand (Lottery View) and influences, as well as the establishment of a lottery related advertising platform.

The mobile gaming business contributed a revenue of HK$16,958,000 to the Group for the year 2009, following the acquisition of Dragon Joyce in October 2009.

COSTS

Despite the Group's turnover increased by 353%, the Group has been able to control and stabilize its overall expenses. Cost of revenue largely in line with 2008. Selling, marketing and administrative expenses dropped by 11% as compared with 2008 mainly due to more stringent control of spending particularly in the first half of 2009. Administrative expenses was largely in line with last year despite the Group had considerably increased its headcounts due to business expansions. The other operating expenses incurred in 2008 was mainly relating to one-off special events in relation to the Group's works on the 2008 Beijing Olympic Games and a discontinued TV production programme and such expenses were not repeated in 2009. As the Group had restructured the interest bearing convertible bonds in 2008 (details were disclosed in the 2008 Annual Report and the 2009 Interim Report), no finance cost was therefore incurred in the year 2009.

NET PROFIT

Year 2009 was a year of turnaround for the Group. Profit attributable to the owners of the Company for the year was HK$105,307,000, compared to a loss of HK$121,004,000 in the last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had HK$339,059,000 cash and cash equivalents (2008: HK$249,846,000). Working capital was HK$569,514,000 as compared with the working capital of HK$245,578,000 at the end of last year. The increase in liquidity of the Group was largely the result of the fund raising on issuing new shares and the profit for the year of HK$109,883,000 earned in year 2009. During the year 2009, new shares were issued and raising a net proceeds of HK$219,335,000 (2008: HK$769,000).

As at 31 December 2009, the Group has no debt (2008: HK$57,200,000). The convertible bonds issued in 2007 had been either fully repaid or converted in the year 2008 and 2009. With substantial cash resources in hand, the Group has paved a strong ground to expand further in 2010.

CAPITAL STRUCTURE

As at 31 December 2009, the total asset of the Group was HK$1,271 million (2008: HK$682 million), which was financed virtually by shareholders' equity. Issued number of shares increased from 1,731 million shares (31 December 2008) to 2,266 million shares (31 December 2009). Out of the 535 million shares, 323 million shares were issued for raising cash resources. The Group's capital structure, as well as cash inflow, is therefore very healthy.

The Group controlled carefully the foreign exchange risk exposure. Exchange loss incurred in the year 2009 was HK$1,906,000 (2008: HK$3,777,000).

EMPLOYEES REMUNERATION AND BENEFITS

As at 31 December 2009, the Group had over 400 employees in the PRC (Beijing and Shenzhen) and Hong Kong. More talented individuals have been recruited to support the growth of the Group. The Group remunerates its Directors and staffs primarily based on their contribution, responsibility, qualification and experience. Since 2002, the Group has implemented a staff stock option plan and certain senior management executives and the Directors are offered housing benefits as part of their remuneration package. All employees and Directors in Hong Kong have joined the MPF scheme.

DIVIDENDS

The Directors of the Company proposed a dividend of HK0.6 cents per share (2008: nil). The dividend is intended to be declared through cancellation of an amount standing to the credit of the share premium account of the Company ("Share Premium Reduction") and transferring the credit arising from the Share Premium Reduction to the contributed surplus account of the Company. The Share Premium Reduction will be subject to shareholders' approval in a special general meeting of the Company. Separate announcements will be made on the special general meeting and on the period closure of register of members for determining the entitlement of dividend.

Independent Auditor's Report

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TO THE SHAREHOLDERS OF VODONE LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of VODone Limited (the "Company") and its subsidiaries (thereafter referred to as the "Group") set out on pages 34 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981 (as amended), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 affairs of the Company and of the Group as at 31 December 2009 and of the profit and cash flows of the Group 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.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate no. P05309

Hong Kong, 25 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Revenue	6	298,702	65,922
Cost of revenue		(45,948)	(45,822)
Gross profit		252,754	20,100
Other gains and losses	7	2,928	75,550
Selling and marketing expenses		(63,749)	(81,800)
Administrative expenses		(79,380)	(79,235)
Other operating expenses		—	(24,747)
Finance costs	8	—	(29,974)
Share of loss of an associate	17	(1,065)	(2,412)
Profit/(loss) before income tax	9	111,488	(122,518)
Income tax	12(a)	(1,605)	(20)
PROFIT/(LOSS) FOR THE YEAR		109,883	(122,538)
Other comprehensive income			
Exchange differences arising on translation		3,076	54,853
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		112,959	(67,685)
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Owners of the Company		105,307	(121,004)
Minority interests		4,576	(1,534)
		109,883	(122,538)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		108,334	(69,069)
Minority interests		4,625	1,384
		112,959	(67,685)
EARNINGS/(LOSS) PER SHARE			
– Basic (HK cents)	14	5.4 cents	(7.1 cents)
– Diluted (HK cents)	14	5.4 cents	(7.1 cents)

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	33,552	22,268
Interest in an associate	17	51,473	52,444
Goodwill	18	474,314	265,188
Intangible assets	20	119,596	—
Other receivable	22	—	19,495
Deposits for acquisition of property, plant and equipment		853	10,853
		679,788	370,248
CURRENT ASSETS			
Accounts receivable	21	14,374	148
Other receivables, deposits and prepayments	22	177,418	40,923
Amount due from an associate	35(c)	55,407	16,560
Amount due from a related company	35(d)	5,218	4,491
Bank balances and cash		339,059	249,846
		591,476	311,968
CURRENT LIABILITIES			
Accounts payable	23	151	—
Other payables and accruals	24	17,528	64,947
Deposits received		2,467	21
Obligations under finance leases	25	—	8
Other borrowing	26	—	1,414
Taxation		1,816	—
		21,962	66,390
NET CURRENT ASSETS		569,514	245,578
TOTAL ASSETS LESS CURRENT LIABILITITES		1,249,302	615,826
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	9,014	—
Obligations under finance leases	25	—	23
		9,014	23
NET ASSETS		1,240,288	615,803

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
EQUITY			
Share capital	28	22,664	17,314
Shares to be issued	29	—	8,292
Reserves		1,170,816	564,246
Equity attributable to owners of the Company		1,193,480	589,852
Minority interests		46,808	25,951
TOTAL EQUITY		1,240,288	615,803

Zhang Lijun
Director

Wang Chun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the Company								
	Share capital (note 28) HK$'000	Shares to be issued (note 29) HK$'000	Share premium (note 30 (a)) HK$'000	Contri-buted surplus (note 30(b)) HK$'000	Share-based compen-sation reserve (note 30(c)) HK$'000	Exchange fluctua-tion reserve (note 30(d)) HK$'000	Accu-mulated losses HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	16,441	—	838,366	33,474	17,823	11,508	(302,583)	24,567	639,596
Total comprehensive income for the year	—	—	—	—	—	51,935	(121,004)	1,384	(67,685)
Shares issued on repurchase of convertible notes *(note 28(i))*	867	8,292	29,475	—	—	—	—	—	38,634
Shares issued on exercise of share options *(note 28(ii))*	6	—	905	—	(142)	—	—	—	769
Recognition of share-based payment expense *(note 34)*	—	—	—	—	4,489	—	—	—	4,489
At 31 December 2008 and 1 January 2009	17,314	8,292	868,746	33,474	22,170	63,443	(423,587)	25,951	615,803
Total comprehensive income for the year	—	—	—	—	—	3,027	105,307	4,625	112,959
Shares issued on repurchase of convertible notes *(note 28(i))*	237	(8,292)	8,055	—	—	—	—	—	—
Shares issued on exercise of share options *(note 28(ii))*	870	—	15,844	—	(5,363)	—	—	—	11,351
Subscription of new shares *(notes 28(iii))*	1,440	—	77,760	—	—	—	—	—	79,200
Placing of shares *(note 28(v))*	920	—	127,864	—	—	—	—	—	128,784
Shares issued for									
– acquisition of assets *(note 28(iv))*	875	—	58,625	—	—	—	—	—	59,500
– acquisition of subsidiaries *(note 28 (vi))*	1,008	—	204,602	—	—	—	—	—	205,610
Acquisition of subsidiaries *(note 31)*	—	—	—	—	—	—	—	15,855	15,855
Dilution of shareholdings in a subsidiary	—	—	—	—	—	—	—	377	377
Recognition of share-based payment expense *(note 34)*	—	—	—	—	10,849	—	—	—	10,849
Transfer upon cancellation of share options *(note 34)*	—	—	—	—	(948)	—	948	—	—
At 31 December 2009	22,664	—	1,361,496	33,474	26,708	66,470	(317,332)	46,808	1,240,288

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before income tax	111,488	(122,518)
Loss on dilution of shareholdings in a subsidiary	377	—
Bad debts written off	136	—
Depreciation of property, plant and equipment	6,961	8,881
Amortisation of intangible assets	1,383	—
Foreign exchange losses, net	1,906	3,777
Interest income	(1,647)	(5,655)
Imputed interest of convertible notes	—	29,972
Finance lease charge	—	2
Fair value gain on derivative component of convertible notes	—	(54,360)
Gain on repurchase of convertible notes	—	(24,312)
Share of loss of an associate	1,065	2,412
Share-based payment expense in respect of granting of share options	10,849	4,489
Gain on deregistration of subsidiaries	(1,393)	—
Operating cash flows before working capital changes	131,125	(157,312)
(Increase)/decrease in accounts receivable	(14,362)	4,704
(Increase)/decrease in other receivables, deposits and prepayments	(106,782)	62,452
(Increase)/decrease in amount due from an associate	(38,781)	15,268
(Increase)/decrease in amount due from a related company	(718)	233
Increase in accounts payable	151	—
Decrease in other payables and accruals	(47,434)	(7,327)
Increase/(decrease) in deposits received	2,446	(549)
Effect of foreign exchange rate changes	100	1,609
Net cash used in operations	(74,255)	(80,922)
Interest paid on convertible notes	—	(5,780)
Income tax paid	—	(20)
Net cash used in operating activities	(74,255)	(86,722)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(17,810)	(13,753)
Proceeds on disposal of property, plant and equipment		23	—
Acquisition of subsidiaries	31	(39,836)	—
Interest received		1,647	4,255
Net cash used in investing activities		(55,976)	(9,498)
FINANCING ACTIVITIES			
Net proceeds from issue of shares		219,335	769
Repurchase of convertible notes		—	(209,300)
Repayment of finance lease obligations		(31)	(11)
Net cash generated from/(used in) financing activities		219,304	(208,542)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		89,073	(304,762)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		249,846	553,601
Effect of foreign exchange rate changes		140	1,007
CASH AND CASH EQUIVALENTS AT END OF YEAR		339,059	249,846
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		339,059	249,846

Statement of Financial Position

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	710	1,492
Interests in subsidiaries	19	886,642	593,723
Intangible assets	20	59,500	—
		946,852	595,215
CURRENT ASSETS			
Deposits and prepayments	22	2,934	2,878
Amount due from a related company	35(d)	33	33
Bank balances and cash		205,843	209,836
		208,810	212,747
CURRENT LIABILITIES			
Other payables and accruals	24	4,981	62,234
Deposits received		2,466	21
Amounts due to subsidiaries	19	6	22,890
Obligations under finance leases	25	—	8
		7,453	85,153
NET CURRENT ASSETS		201,357	127,594
TOTAL ASSETS LESS CURRENT LIABILITIES		1,148,209	722,809
NON-CURRENT LIABILITIES			
Obligations under finance leases	25	—	23
NET ASSETS		1,148,209	722,786
EQUITY			
Share capital	28	22,664	17,314
Shares to be issued	29	—	8,292
Reserves	30	1,125,545	697,180
TOTAL EQUITY		1,148,209	722,786

Zhang Lijun	Wang Chun
Director	*Director*

1. CORPORATE INFORMATION

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

During the year, the Group is principally engaged in tele-media service business, lottery-related business and mobile gaming business in the People's Republic of China ("PRC").

In prior years, the directors regarded Hong Kong dollar as the functional currency of the Company. During the year, the directors reassessed the Company's functional currency and considered that the functional currency of the Company should be changed from Hong Kong dollar to Renminbi, which has become the currency that mainly influences the operations of the Group's significant entities. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21 'The Effect of Change in Foreign Exchange Rates'. As the Company is listed on the Main Board of the Stock Exchange of Hong Kong, the directors consider that it will be more appropriate to adopt Hong Kong dollar as the Group's and the Company's presentation currency.

2. ADOPTION OF NEW AND REVISED STANDARDS

(a) ADOPTION OF NEW AND REVISED HKFRSs

The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 and HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers

2. ADOPTION OF NEW AND REVISED STANDARDS *(Continued)*

(a) ADOPTION OF NEW AND REVISED HKFRSS *(Continued)*

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for following changes:-

HKAS 1 (Revised) "Presentation of Financial Statements"

The revised standard affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the Statement of Comprehensive Income, the Statement of Financial Position and the Statement of Cash Flows respectively. All income and expenses arising from transactions with non-owners are presented under the Statement of Comprehensive Income; while the owners' changes in equity are presented under the Statement of Changes in Equity.

HKFRS 8 "Operating Segment"

HKFRS 8 replaces HKAS 14 "Segment Reporting, and requires operating segment to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to the chief operating decision-maker as required by HKFRS 8, there are no changes to the operating segments and the relevant segment information on the adoption of HKFRS 8.

HKFRS 7 (Amendments) Improving Disclosures about Financial Instruments

The amendments to HKFRS 7 expand the disclosure relating to fair value measurements for financial instruments that are measured at fair value and liquidity risk of financial liabilities including issued financial guarantee contracts.

2. ADOPTION OF NEW AND REVISED STANDARDS *(Continued)*

(b) POTENTIAL IMPACT ARISING ON HKFRSS NOT YET EFFECTIVE

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective, but potentially relevant to the Group's operations.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
Amendments to HKAS 32	Classification of Rights Issues[4]
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[5]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKFRS 9	Financial Instruments[7]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 January 2010
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 July 2010
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared on the historical cost convention. The consolidated financial statements also complies with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance.

(b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries for the fiscal year ended 31 December.

The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-company transactions and balances have been eliminated on consolidation.

Minority interests at the end of reporting period, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Group, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) BUSINESS COMBINATIONS

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are recognised at their values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The goodwill is subsequently accounted for in accordance with the policy set out in note 3(g) below.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) SUBSIDIARIES

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

(e) ASSOCIATE

An associate is an entity, not being a subsidiary nor an interest in a joint venture, over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognised. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, unrealised gains and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For any asset replacement, the carrying amount of the replaced part is derecognised.

Depreciation is provided to write off the cost of assets over their anticipated useful lives on a straight-line basis. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period. The principal annual rates used for this purpose are as follows:

Leasehold improvements	shorter of 40% and the lease terms
Motor vehicles	20%
Plant, machinery and equipment	10% - 15%
Furniture, fixtures and office equipment	10% - 20%
Computer hardware and software	20%

The gain or loss on disposal or retirement of an asset recognised in profit or loss is the difference between the net sales proceeds and the carrying value of the relevant asset.

(g) GOODWILL

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) INTANGIBLE ASSETS

Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows. The amortisation expense is recognised in profit or loss and included in cost of sales.

Distribution Networks	10 years
Mobile Games	7 years

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. Changes in useful life from indefinite to finite is made on prospective basis.

Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss, if any.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) INTANGIBLE ASSETS *(Continued)*

Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (Note 3(i)).

(i) IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment
- Intangible assets with finite useful life
- Investments in subsidiaries and associate

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) FINANCIAL ASSETS

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. The Company's financial assets are classified as loans and receivables and are subsequently accounted for as follows:

Loans and receivables

Trade receivables, loans and other receivables including amounts due from associate and related company that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) FINANCIAL ASSETS *(Continued)*

Impairment of financial assets *(Continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determines had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of accounts and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against accounts and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Effective interest method

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) FINANCIAL LIABILITIES AND EQUITY ISSUED BY THE GROUP

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

(i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(ii) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. All the Group's financial liabilities are classified as other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method (note 3(j) above), with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(l) CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and are subject to an insignificant risk of change in value.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) EMPLOYEES' BENEFITS

Short term benefits

Salaries, annual bonuses, paid annual leaves and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Prior to the MPF Scheme being effective, the Group did not have any pension arrangements for its employees.

The employees of the Group's subsidiaries in the PRC are members of central pension schemes operated by the local governments in the PRC and these subsidiaries make mandatory contributions to these central pension schemes to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC, and are charged to profit or loss as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the central pension schemes operated by the local governments in the PRC.

Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Where equity instruments are granted to persons other than employees, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. Where the fair value of the goods and services received cannot be estimated reliably, in which case, they are measured at the fair value of the equity instruments granted, at the date the Group obtains the goods and services. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit or loss, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) PROVISIONS

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(p) CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(q) LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) LEASES *(Continued)*

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(r) FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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 Hong Kong Dollar ("HK$").

Transactions and balances

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 exchanges rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items are recognised in other comprehensive income and included in the fair value reserve within equity.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised as profit or loss in the period in which the foreign operation is disposed of.

(s) CAPITALISATION OF BORROWING COSTS

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) RELATED PARTIES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) SEGMENT REPORTING

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

Individually 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.

(v) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes.

i) from tele-media business, advertising income are recognised when services are rendered or substantially performed in accordance with the terms of the contract; and service income are recognised when services are performed in accordance with the substance of the relevant agreement;

ii) from lottery-related business, service income are recognised when services are performed in accordance with the substance of the relevant agreement; and advertising income are recognised when services are rendered or substantially performed in accordance with the terms of the contract;

iii) from mobile gaming business, sales of mobile games are billed on a per transaction basis. These games are delivered to the Group's customers through the platforms of various operators who collect certain sales amount on behalf of the Group. The sales amount are confirmed and advised by these operators to the Group on a monthly basis and revenue is recognised on a gross basis;

iv) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

ESTIMATES AND JUDGMENTS

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy as referred to in note 3(g) above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.

(ii) Impairment of assets (excluding goodwill)

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

5. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has three reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Tele-media business
- Lottery-related business
- Mobile gaming business

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-makers for assessment of segment performance.

(a) BUSINESS SEGMENTS

	Tele-media business		Lottery-related business		Mobile gaming business		Total	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Revenue from external customers	217,263	65,922	64,481	—	16,958	—	298,702	65,922
Reportable segment profit/(loss)	101,369	(132,314)	36,422	—	15,155	—	152,946	(132,314)
Interest revenue	1,257	2,822	—	—	—	—	1,257	2,822
Depreciation and amortisation	(6,128)	(8,110)	(27)	—	(1,412)	—	(7,567)	(8,110)
Income tax expenses	(1,812)	—	—	—	207	—	(1,605)	—
Reportable segment assets	622,427	427,675	97,260	—	289,955	—	1,009,642	427,675
Additions to non-current assets	15,968	13,719	61,162	—	270,276	—	347,406	13,719
Reportable segment liabilities	9,069	2,698	1,338	—	13,105	—	23,512	2,698

During 2008, the Group's turnover and operating results were derived from tele-media business only.

5. SEGMENT REPORTING *(Continued)*

(b) RECONCILIATION OF REPORTABLE SEGMENT PROFIT OR LOSS, ASSETS AND LIABILITIES

	2009 HK$'000	2008 HK$'000
Profit/(loss) before income tax		
Reportable segment profit	152,946	(132,314)
Other gains and losses	3,577	76,585
Share of loss of an associate	(1,065)	(2,412)
Unallocated corporate expenses	(43,970)	(34,403)
Finance costs	—	(29,974)
Consolidated profit/(loss) before income tax	111,488	(122,518)

	2009 HK$'000	2008 HK$'000
Assets		
Reportable segment assets	1,009,642	427,675
Interest in an associate	51,473	52,444
Unallocated corporate assets	210,149	202,097
Consolidated total assets	1,271,264	682,216

	2009 HK$'000	2008 HK$'000
Liabilities		
Reportable segment liabilities	23,512	2,698
Unallocated corporate liabilities	7,464	63,715
Consolidated total liabilities	30,976	66,413

(c) GEOGRAPHICAL INFORMATION

During 2009 and 2008, the Group's operations and non-current assets are situated in the PRC in which all of its revenue was derived.

5. SEGMENT REPORTING *(Continued)*

(d) MAJOR CUSTOMERS

As disclosed in note 35(a), the Group's associate is the only major customer with whom transactions have exceeded 10% of the Group's revenues. Revenue from the Group's associate amounted to approximately HK$184,624,000 (2008: HK$65,476,000) in the tele-media segment and amounted to approximately HK$28,098,000 (2008: Nil) in the lottery-related segment.

6. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and service fees earned. An analysis of turnover and revenue is as follows:

	2009 HK$'000	2008 HK$'000
Revenue		
Tele-media business:		
– advertising and service income	217,263	65,922
Lottery–related business:		
– service and advertising income	64,481	—
Mobile gaming business:		
– sales of mobile games	16,958	—
	298,702	65,922

7. OTHER GAINS AND LOSSES

	2009 HK$'000	2008 HK$'000
Fair value gain on derivative component of convertible notes	—	54,360
Gain on repurchase of convertible notes	—	24,312
Loss on dilution of shareholdings in a subsidiary	(377)	—
Net foreign exchange losses	(1,906)	(3,777)
Interest income	1,647	5,655
Additional cost in relation to disposal of subsidiaries in 2007	—	(5,000)
Gain on deregistration of subsidiaries	1,393	—
Others	2,171	—
	2,928	75,550

8. FINANCE COSTS

Finance costs comprise the followings:

	2009 HK$'000	2008 HK$'000
Imputed interest on convertible notes	—	29,972
Finance lease charge	—	2
	—	29,974

9. PROFIT/(LOSS) BEFORE INCOME TAX

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

	2009 HK$'000	2008 HK$'000
Staff costs (excluding directors' remuneration *(note 10)*)		
Salaries and wages	18,959	18,462
Pension fund contributions	3,512	3,428
Share-based payments	6,788	3,519
	29,259	25,409
Amortisation of intangible assets	1,383	—
Depreciation of property, plant and equipment	6,961	8,881
Bad debts written off	136	—
Auditor's remuneration	740	630
Production and programming costs (included in other operating expenses)	—	24,747

10. DIRECTORS' REMUNERATION

	2009 HK$'000	2008 HK$'000
Directors' fees		
Executive Directors	5,254	5,254
Independent non-executive Directors	400	400
Basic remuneration, housing, other allowances and benefits in kind	13,519	4,348
Share-based payment expense	2,823	970
Pension fund contributions	44	4
	22,040	10,976

10. DIRECTORS' REMUNERATION *(Continued)*

Directors' remuneration related information disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees HK$000	Remuneration, allowances and benefits in kind HK$000	Share-based payments HK$000	Pension fund contributions HK$000	Total HK$000
2009					
Executive Directors					
Zhang Lijun	3,935	2,065	—	11	6,011
Wang Chun	1,319	1,681	—	11	3,011
Yue Hong Chu, George	—	1,500	455	12	1,967
Sin, Hendrick(i)	—	8,273	2,368	10	10,651
Independent non-executive Directors					
Loke Yu, (alias Loke Hoi Lam)	160	—	—	—	160
Wang Zhichen	120	—	—	—	120
Wang Linan	120	—	—	—	120
	5,654	13,519	2,823	44	22,040
2008					
Executive Directors					
Zhang Lijun	3,935	2,065	285	—	6,285
Wang Chun	1,319	1,681	285	—	3,285
Yue Hong Chu, George(iii)	—	375	229	3	607
Lu Xing(ii)	—	67	—	—	67
Wu Fred Fong(ii)	—	150	—	1	151
Yu Jianmeng(ii)	—	10	—	—	10
Independent non-executive Directors					
Loke Yu, (alias Loke Hoi Lam)	160	—	57	—	217
Wang Zhichen	120	—	57	—	177
Wang Linan	120	—	57	—	177
	5,654	4,348	970	4	10,976

10. DIRECTORS' REMUNERATION *(Continued)*

(i) appointed on 2 March 2009

(ii) resigned on 31 January 2008

(iii) appointed on 6 October 2008

There were no arrangements under which a director waived or agreed to waive any remuneration for the year (2008: 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 (2008: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Group during 2008 and 2009 included four directors, details of whose remuneration are set out in note 10 above.

During 2008 and 2009, there was one employee whose emoluments were among one of the five highest paid employees. The details are as follows:

	2009 HK$'000	2008 HK$'000
Remuneration, allowances and benefits in kind	1,500	1,500
Share-based payment expense	182	231
Pension fund contributions	12	12

During the year, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office (2008: Nil).

There was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration during the year (2008: Nil).

12. INCOME TAX

(a) Taxation in the consolidated statement of comprehensive income represents:

	2009 HK$'000	2008 HK$'000
Current tax - PRC		
– provision for the year	1,812	—
Current tax - Hong Kong Profits Tax		
– under provision in respect of prior years	—	20
Deferred taxation *(note 27)*		
– attributable to the reversal of temporary differences	(207)	—
	1,605	20

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the subsidiaries of the Group is calculated based on the statutory tax rate of 25%, except for VODone Information Engineering Co., Ltd. ("TMD2") which is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%. TMD2 has also obtained a tax concession from local tax authority in which the Company was fully exempted from PRC income tax for year 2006 to 2008, followed by a 50% reduction in the PRC income tax for the next 3 years, 2009 to 2011.

(b) The income tax for the year can be reconciled to the accounting profit/(loss) as follows:

	2009 HK$'000	2008 HK$'000
Profit/(loss) before income tax	111,488	(122,518)
Taxation calculated at PRC income tax of 25% (2008: 25%)	27,872	(30,630)
Tax effect of non-taxable income	(5,492)	(13,724)
Tax effect of expenses not deductible for taxation purposes	8,224	9,675
Utilisation of previously unrecognised tax loss	(12,725)	—
Deferred tax assets not recognised	—	25,088
Effect of tax exemptions granted to TMD2	(19,794)	11,040
Effect of tax rates in foreign jurisdictions	3,520	(1,452)
Others	—	23
Income tax for the year	1,605	20

13. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit/(loss) for the year attributable to owners of the Company for the year ended 31 December 2009 includes a loss of HK$69,871,000 (2008: a profit of HK$17,106,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS/(LOSS) PER SHARE

	2009 HK cents	2008 HK cents
Basic earnings/(loss) per share	5.4	(7.1)
Diluted earnings/(loss) per share	5.4	(7.1)

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

Profit/(loss)	2009 HK$'000	2008 HK$'000
Profit/(loss) for the year attributable to ordinary equity holders of the Company, used in the basic and diluted earnings of share calculation	105,307	(121,004)

14. EARNINGS/(LOSS) PER SHARE *(Continued)*

Number of shares	2009	2008
Issued ordinary shares at 1 January	1,731,366,355	1,644,074,049
Effect of shares issued on repurchase of convertible notes	15,967,967	43,819,881
Effect of shares to be issued for repurchase of convertible notes	—	11,975,620
Effect of shares issued on exercise of share options	42,607,288	572,131
Effect of shares issued on subscription of shares	75,747,945	—
Effect of shares issued on placing of shares	18,147,945	—
Effect of shares issued on acquisition of assets	43,630,137	—
Effect of shares issued on acquisition of subsidiaries	18,224,920	—
Weighted average number of ordinary share for basic earnings/(loss) per share	1,945,692,557	1,700,441,681
Effect of dilution		
– share options	10,997,058	—
Weighted average number of ordinary share for basic earnings/(loss) per share, adjusted for the effect of dilution	1,956,689,615	1,700,441,681

No adjustment has been made to the basic earnings per share presented for the year ended 31 December 2008 as the share options outstanding at the year end had an anti-dilutive effect on the basic loss per share. Therefore the basic and diluted loss per share in 2008 are the same.

15. DIVIDENDS

The Directors of the Company proposed a dividend of HK0.6 cents per share (2008: nil). The dividend is intended to be declared through cancellation of an amount standing to the credit of the share premium account of the Company ("Share Premium Reduction") and transferring the credit arising from the Share Premium Reduction to the contributed surplus account of the Company. The Share Premium Reduction will be subject to shareholders' approval in a special general meeting of the Company.

16. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Furniture, fixture, computer hardware and software and office equipment HK$'000	Total HK$'000
Cost:					
At 1 January 2008	1,470	2,629	12,934	972	18,005
Reclassifications	—	2,762	(4,069)	1,307	—
Additions	5,433	2,908	3,403	2,009	13,753
Exchange adjustments	80	208	771	131	1,190
At 31 December 2008	6,983	8,507	13,039	4,419	32,948
Acquisition of subsidiaries *(note 31)*	—	—	—	400	400
Additions	114	—	12,340	5,356	17,810
Disposals	—	—	(41)	—	(41)
Exchange adjustments	10	16	46	18	90
At 31 December 2009	**7,107**	**8,523**	**25,384**	**10,193**	**51,207**
Accumulated depreciation:					
At 1 January 2008	98	332	1,130	27	1,587
Reclassifications	—	377	(509)	132	—
Charge for the year	4,969	1,384	2,066	462	8,881
Exchange adjustments	65	41	96	10	212
At 31 December 2008	5,132	2,134	2,783	631	10,680
Charge for the year	1,688	1,393	3,061	819	6,961
Written back on disposal	—	—	(18)	—	(18)
Exchange adjustments	10	7	13	2	32
At 31 December 2009	**6,830**	**3,534**	**5,839**	**1,452**	**17,655**
Carrying amount:					
At 31 December 2009	**277**	**4,989**	**19,545**	**8,741**	**33,552**
At 31 December 2008	1,851	6,373	10,256	3,788	22,268

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company	Leasehold improvements	Plant, machinery and equipment	Furniture, fixture, and office equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost:				
At 1 January 2008	1,470	830	56	2,356
Reclassification	—	(167)	167	—
Additions	—	—	34	34
At 31 December 2008	1,470	663	257	2,390
Additions	15	1	3	19
Disposals	—	(41)	—	(41)
At 31 December 2009	**1,485**	**623**	**260**	**2,368**
Accumulated depreciation:				
At 1 January 2008	98	27	2	127
Reclassification	—	(5)	5	—
Charge for the year	588	133	50	771
At 31 December 2008	686	155	57	898
Charge for the year	593	132	52	777
Written back on disposal	—	(17)	—	(17)
At 31 December 2009	**1,279**	**270**	**109**	**1,658**
Carrying amount:				
At 31 December 2009	**206**	**353**	**151**	**710**
At 31 December 2008	784	508	200	1,492

17. INTEREST IN AN ASSOCIATE

	Group 2009 HK$'000	Group 2008 HK$'000
Share of net liabilities	(3,538)	(2,465)
Goodwill	55,011	54,909
	51,473	52,444

The goodwill arising from acquisition of the associate was related to the Group's tele-media services business ("Tele-media CGU") in the PRC.

Particulars of the Group's associate are as follows:-

Name of company	Place of incorporation and operation	Proportion of ownership interest: Ownership interest held by the Group	Proportion of ownership interest: Equity interest held by the Company	Principal activity
第一視頻數碼媒體技術有限公司 (VODone Datamedia Technology Co., Ltd) ("TMD1")	PRC	49%	24.99%	Provision of tele-media business support and content services

17. INTEREST IN AN ASSOCIATE *(Continued)*

Summarised financial information in respect of the Group's associate is set out below:

	2009 HK$'000	2008 HK$'000
Total assets	64,002	1,103
Total liabilities	(71,222)	(6,135)
	(7,220)	(5,032)
Group's share of associate's net liabilities	(3,538)	(2,465)
Revenue	221,936	65,527
Loss for the year	(2,174)	(4,922)
Group's share of associate's loss for the year	(1,065)	(2,412)

18. GOODWILL

	Group HK$'000
Cost:	
At 1 January 2008	231,792
Exchange adjustments	33,396
At 31 December 2008	265,188
Acquisition of subsidiaries *(note 31)*	208,636
Exchange adjustments	490
At 31 December 2009	474,314

For the purpose of impairment testing, goodwill arising from business combination is allocated to the Group's CGUs identified to business segment. The carrying amount, as at 31 December 2009, was related to the Group's Tele-media CGU and mobile gaming business ("Mobile game CGU") in the PRC.

18. GOODWILL *(Continued)*

	2009 HK$'000	2008 HK$'000
Tele-media CGU	265,678	265,188
Mobile game CGU	208,636	—
	474,314	265,188

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The Group engaged a professional appraiser to conduct valuations of the intellectual properties, including patent, trademarks and related technologies, to test goodwill created from acquiring the CGUs.

In respect of the Tele-media CGU, the appraiser applied the income approach to determine the value of the fair market value of the CGU. The key assumptions for discounting the five years' future cash flow projection approved by management are those regarding the discount rates and expected changes to selling prices and direct costs during the projection period. The appraiser estimates discount rates using the Capital Assets Pricing Model that based on stock prices of certain comparable companies listed on the Stock Exchange. The discount rate applied in the valuation was 19.14% and marketability discount of 10% was adopted.

In respect of the Mobile game CGU, the appraiser applied the income approach to determine the value of the fair market value of the CGU. The key assumptions for discounting the five years' future cash flow projection approved by management are those regarding the discount rates and expected changes to selling prices and direct costs during the projection period. The appraiser estimates discount rates using the Capital Assets Pricing Model that based on stock prices of certain comparable companies listed on the Stock Exchange. The discount rate applied in the valuation was 25.99% and marketability discount of 30% was adopted.

The recoverable amounts of both CGUs are higher than their carrying amounts with reference to the valuation. Accordingly, no impairment loss on goodwill is required. Management believes any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause their recoverable amounts to be less than their carrying amounts.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2009 HK$'000	2008 HK$'000
Unlisted shares/capital contributions, at cost	716,331	442,521
Due from subsidiaries	204,620	618,741
	920,951	1,061,262
Less: Provision for impairment	(34,309)	(467,539)
	886,642	593,723

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within the twelve months following the end of reporting period.

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

Particulars of the Company's principal subsidiaries at 31 December 2009 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held directly by the Company Direct	Indirect	Principal activities
Clear Concept International Limited	British Virgin Islands ("BVI")	US$200	51%	—	Investment holding
Vodone Holdings Limited	Hong Kong	HK$2	—	51%	Investment holding
Adpeople Company Limited	Hong Kong	HK$10,000	100%	—	Investment holding
第一視頻信息工程有限公司 (VODone Information Engineering Co, Ltd) ("TMD2") (i)	PRC	RMB160,500,000	99.69%	—	Provision of technical and promotional and advertising services
北京日升升國際廣告有限公司 (Beijing Adpeople International Advertising Co, Ltd) ("TMD3") (i)	PRC	RMB108,000,000	—	100%	Provision of advertisement production services

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held directly by the Company		Principal activities
			Direct	Indirect	
北京互聯時代娛樂文化發展有限公司 (Beijing Union Times Entertainment Culture Development Co, Ltd) ("TMD4") (i)	PRC	RMB39,306,800	98.47%	—	Provision of entertainment production services
Dragon Joyce Limited ("Dragon Joyce")	BVI	US$1,000	70%	—	Investment holding
匯友數碼（深圳）有限公司 (Huiyou Digital (Shenzhen) Ltd.) (i)	PRC	HK$550,000	—	70%	Development and provision of mobile gaming
北京動感樂風信息技術有限公司 (i)	PRC	RMB30,000	—	70%	Development and provision of mobile gaming

(i) These companies are foreign investment enterprises established in the PRC.

20. INTANGIBLE ASSETS

	Domouse assets HK$'000	Mobile game HK$'000	Distribution network HK$'000	Total HK$'000
Group				
Cost:				
Acquisition of subsidiaries *(note 31)*	—	35,024	26,455	61,479
Additions *(note)*	59,500	—	—	59,500
At 31 December 2009	**59,500**	**35,024**	**26,455**	**120,979**
Amortisation:				
Amortisation at **31 December 2009**	**—**	**905**	**478**	**1,383**
Carrying amount:				
At 31 December 2009	**59,500**	**34,119**	**25,977**	**119,596**
At 31 December 2008	—	—	—	—
Company				
Cost:				
Additions and at **31 December 2009**	**59,500**	**—**	**—**	**59,500**
At 31 December 2008	—	—	—	—

20. INTANGIBLE ASSETS *(Continued)*

Note:

Domouse Assets included all the rights of Domouse in relation to the Domain Names, all the rights to the Domouse Software and Domouse Database, the Domouse Message Management Platform and any relevant intellectual property rights, with an indefinite useful life. The Group engaged a professional appraiser to conduct valuations of these intangible assets. The appraiser applied the income approach to determine the fair value. The key assumptions for discounting the five years' future cash flow projection approved by management are those regarding the discount rates and expected changes to selling prices and direct costs during the projection period. The appraiser estimates discount rates using the Capital Assets Pricing Model that based on stock prices of certain comparable companies listed on the Stock Exchange. The discount rate applied in the valuation was 27.14% and marketability discount of 10% adopted.

The fair value of the Domouse Assets is higher than its carrying amount with reference to the valuation. Accordingly, no impairment loss on intangible asset is required.

21. ACCOUNTS RECEIVABLE

An ageing analysis of the accounts receivable as at the end of reporting period, based on payment due date is as follows:

	Group	
	2009 HK$'000	2008 HK$'000
Within 1 month	20	—
2 to 3 months	14,340	—
4 to 6 months	3	—
7 to 12 months	—	—
Over 1 year	11	148
	14,374	148

The credit period of the Group's accounts receivable ranges from 30 days to 60 days.

21. ACCOUNTS RECEIVABLE *(Continued)*

The ageing analysis of accounts receivable that are neither individually nor collectively considered to be impaired is as follows:

	2009 HK$'000	2008 HK$'000
Neither past due nor impaired	14,360	—
Less than 1 month past due	—	—
1 to 3 months past due	—	—
More than 3 months past due	14	148
	14,374	148

Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Non-current				
Other receivable *(note (a))*	—	19,495	—	—
Current				
Other receivables *(note (a))*	21,521	895	—	89
Deposits	3,028	3,309	2,789	2,789
Prepayments *(note (b))*	152,869	36,719	145	—
	177,418	40,923	2,934	2,878

Notes:

(a) Included in other receivables as at 31 December 2009 was a refundable deposit of approximately RMB18,090,000, equivalent to HK$20,586,000 (2008: HK$19,495,000), paid to Sino Sky Telecom Industry Group ("Sino Sky"), the minority shareholder of TMD2, in relation to the promotion and marketing agreement entered between TMD2 and Sino Sky in 2008. The balance is repayable by October 2010.

(b) Included in prepayments as at 31 December 2009 were prepaid promotion, advertising and agency fees of HK$149,247,000 (2008: HK$35,147,000), where relevant services have not been rendered.

23. ACCOUNTS PAYABLE

Generally, the credit terms received from suppliers of the Group is 30 days. An ageing analysis of year end accounts payable is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Current or less than 1 month	100	—
1 to 3 months	3	—
More than 3 months but less than 12 months	48	—
	151	—

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000
Payables for repurchase of convertible notes *(note)*	—	57,200	—	57,200
Other payables	13,874	6,567	4,981	5,034
Accruals	3,654	1,180	—	—
	17,528	64,947	4,981	62,234

Note: The balance represented the cash consideration payable on repurchase of convertible notes in 2008. The balance was settled on 25 March 2009.

25. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2009, the Group and the Company had obligations under finance leases repayable as follows:

	Group and Company			
	Minimum lease payments		Present value of minimum lease prepayment	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	—	11	—	8
In the second to fifth year inclusive	—	30	—	23
	—	41		
Less: Future finance charge	—	(10)		
Present value of lease obligations	—	31	—	31

It was the Group's policy to lease certain of its equipment under finance leases. The lease term was 5 years. The lease was on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

The Group's obligations under finance lease were secured by the lessor's title to the leased assets.

26. OTHER BORROWING

The other borrowing at 31 December 2008 was unsecured, interest-free and had no fixed term of repayment.

27. DEFERRED TAXATION

Details of the deferred tax liabilities recognised and movements during the year:

	Group Fair value adjustment on intangible assets HK$'000
At 1 January 2008 and 2009	—
Acquisition of subsidiaries *(note 31)*	9,221
Credit to statement of comprehensive income for the year	(207)
At 31 December 2009	9,014

A deferred tax asset has not been recognised for the following:

	Group	
	2009 HK$'000	2008 HK$'000
Unused tax losses	8,945	28,863

Out of the tax losses of the Group as at 31 December 2009, approximately HK$8,129,000 (2008: HK$155,960,000) has an expiry period of five years since 2007.

28. SHARE CAPITAL

	2009 HK$'000	2008 HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
2,266,427,996 (2008: 1,731,366,355) ordinary shares of HK$0.01 each	**22,664**	17,314

The movements in the issued share capital of the Company during the year were as follows:

	Number of ordinary shares	Share capital HK$'000
At 1 January 2008	1,644,074,049	16,441
Shares issued on repurchase of convertible notes (i)	86,692,306	867
Shares issued on exercise of share options (ii)	600,000	6
At 31 December 2008	1,731,366,355	17,314
Shares issued on repurchase of convertible notes (i)	23,692,308	237
Shares issued on exercise of share options (ii)	87,080,000	870
Shares issued on subscription of new shares (iii)	144,000,000	1,440
Shares issued on acquisition of assets (iv)	87,500,000	875
Shares issued on placing of shares (v)	92,000,000	920
Shares issued on acquisition of subsidiaries (vi)	100,789,333	1,008
At 31 December 2009	2,266,427,996	22,664

28. SHARE CAPITAL *(Continued)*

Notes:

(i) In 2008, the Company agreed to issue 110,384,614 new ordinary shares as partial consideration for repurchase of convertible notes of HK$410,000,000 which was issued by the Company in July 2007. 86,692,306 ordinary shares were issued to part of notes holders for settlement of repurchase in June 2008 and the remaining 23,692,308 ordinary shares were issued at HK$0.35 per share in April 2009.

(ii) During the year, certain options were exercised to subscribe for 87,080,000 (2008: 600,000) ordinary shares in the Company at consideration of HK$11,351,000 (2008: HK$769,000) of which HK$871,000 (2008: HK$6,000) was credited to share capital and the balance of HK$10,480,000 (2008: HK$763,000) was credited to the share premium account. HK$5,363,000 (2008 HK$142,000) has been transferred from the share-based compensation reserve to the share premium account in accordance with policy set out in note 3(m).

(iii) On 23 June 2009, the Company completed the subscription of 144,000,000 new shares which were issued of a price of HK$0.55 per share.

(iv) On 3 July 2009, the Company completed the acquisition of intangible assets, as detailed in the Company's announcement dated 21 April 2009. The consideration was satisfied by the issuance of 87,500,000 consideration shares at HK$0.68, the market value of the share at the date of acquisition.

(v) On 21 October 2009, the Company completed the placing of shares of 92,000,000 shares which were issued at a price of HK$1.43 per share.

(vi) As referred to note 31, as part of the settlement for the completion of acquisition of 70% interest in Dragon Joyce on 27 October 2009, the Company issued 100,789,333 new shares to the vendor and/or its nominee at a price of HK$2.04 per share, the market value of the share at the date of acquisition.

29. SHARES TO BE ISSUED

The amount represented the fair value of 23,692,308 ordinary shares to be issued under the repurchase of convertible notes. On 17 April 2009, the relevant ordinary shares were issued to the holders of convertible notes at HK$0.35 per share and the amount was converted into share capital and share premium.

30. RESERVES

Company

	Share Premium HK$000 *(Note (a))*	Contributed surplus HK$000 *(Note (b))*	Share-based compen-sation reserve HK$000 *(Note (c))*	Accumulated losses HK$000	Total reserves HK$000
Balance at 1 January 2008	838,366	76,838	17,823	(287,680)	645,347
Profit for the year	—	—	—	17,106	17,106
Shares issued on repurchase of convertible notes	29,475	—	—	—	29,475
Shares issued on exercise of share option	905	—	(142)	—	763
Recognition of share-based payment expense	—	—	4,489	—	4,489
Balance at 31 December 2008	868,746	76,838	22,170	(270,574)	697,180
Loss for the year	—	—	—	(69,871)	(69,871)
Shares issued on repurchase of convertible notes *(note 28(i))*	8,055	—	—	—	8,055
Shares issued on exercised of share option *(note 28(ii))*	15,844	—	(5,363)	—	10,481
Subscription of new share *(note 28(iii))*	77,760	—	—	—	77,760
Shares issued on placing of shares *(note 28(v))*	127,864	—	—	—	127,864
Share issued for					
- acquisition of the assets *(note 28(iv))*	58,625	—	—	—	58,625
- acquisition of subsidiaries *(note 28(vi))*	204,602	—	—	—	204,602
Cancellation of share options	—	—	(948)	948	—
Recognition of share-based payment expense	—	—	10,849	—	10,849
Balance at 31 December 2009	**1,361,496**	**76,838**	**26,708**	**(339,497)**	**1,125,545**

30. RESERVES *(Continued)*

NATURE AND PURPOSE OF RESERVES

(a) The balance represents the excess of consideration received for issue of shares over the corresponding par value of the issued shares. The application of the share premium account is governed by Section 40 of Bermuda Companies Act 1981 (as amended).

(b) The Group's and the Company's contributed surplus is derived from the difference between the fair value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Group reorganisation in 1991. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of its contributed surplus under certain circumstances.

(c) Share-based compensation reserve comprises the value of the unexercised share option granted by the Company recognised in accordance with the accounting policy adopted for share-based payments in note 3(m).

(d) Exchange fluctuation reserve represents gains/losses arising on retranslating the net assets of foreign operations into Hong Kong dollars.

31. ACQUISITION OF SUBSIDIARIES

On 22 October 2009, the Company acquired the 70% issued share capital of Dragon Joyce and its subsidiaries ("Dragon Joyce Group"), as detailed in the Company's announcement dated 9 October 2009. The consideration was satisfied by HK$40,000,000 in cash and the issuance of 100,789,333 Consideration Shares at HK$2.04 per share, the market value of the share at the date of acquisition.

	Net assets acquired HK$'000	Fair value HK$'000	Total HK$'000
Net assets acquired:			
Property, plants and equipments *(note 16)*	400	—	400
Intangible assets *(note 20)*	—	61,479	61,479
Other receivables	12	—	12
Cash and cash equivalents	164	—	164
Other payables	(5)	—	(5)
Deferred tax liabilities *(note 27)*	—	(9,221)	(9,221)
	571	52,258	52,829
Minority interest			(15,855)
Goodwill *(note 18)*			208,636
Total consideration			245,610
Satisfied by:			
Cash			40,000
100,789,333 Consideration Shares at HK$2.04 each *(note 28(vi))*			205,610
			245,610
Net cash outflow arising on acquisition:			
Cash consideration			40,000
Cash and cash equivalents acquired			(164)
			39,836

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

In accordance with the share purchase agreement dated 9 October 2009, the purchase consideration is contingent on the results of Dragon Joyce for the following specified periods. If the actual results of Dragon Joyce for the respective periods is less than the Profit Target, as set out below, the Company is allowed to recover part or all of the two-third of the Consideration Shares, according to an adjustment mechanism primarily based on the shortfall between the Profit Target and the actual results of Dragon Joyce divided by the issue price of Consideration Shares. During the current period, the actual results of Dragon Joyce is not less than the Profit Target and the Directors of the Company are of opinion that the Profit Targets of the remaining periods will be achievable, no adjustment to the purchase consideration is considered necessary.

Period involved	Profit target
Period from 1 October 2009 to 31 December 2009	RMB13,750,000
Year ending 31 December 2010	RMB71,500,000
Year ending 31 December 2011	RMB85,800,000

The goodwill arising on the acquisition of Dragon Joyce is attributable to the anticipated profitability of the distribution of the Group's products in the new markets, the anticipated future operating synergies from the combination and the benefits from future markets development.

Since the acquisition date, Dragon Joyce Group has contributed HK$19,944,000 to revenue and HK$17,105,000 to net profit. As Dragon Joyce Group had only a few transactions before the acquisition, there is no significant change if the acquisition had occurred on 1 January 2009.

32. OPERATING LEASE ARRANGEMENTS

	Group		Company	
	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year	7,184	6,774	2,471	2,828

At 31 December 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	Group		Company	
	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	5,718	4,879	824	2,471
In the second to fifth years, inclusive	5,506	4,836	—	824
	11,224	9,715	824	3,295

Operating lease payments represent rentals payable by the Group and the Company on certain of its leased properties. Leases are negotiated for an average term of 1 to 2 years at fixed rental.

33. COMMITMENTS

	2009	2008
	HK$'000	HK$'000
Contracted, but not provided for:		
- Acquisition of property, plant and equipment	967	5,451

34. SHARE-BASED PAYMENT TRANSACTIONS

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

Under the share option scheme adopted by the Company on 7 June 2002 (the "Scheme"), the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The exercise price for the share options shall be determined in accordance with the Scheme and the relevant provisions of the Listing Rules. The costs for the value of the grant of share options were recognised as an expense during the year.

The terms and conditions of the grants and movements in the number of share options under the Scheme during the year were as follows:

	At beginning of year	Granted during the year	Exercised during the year	Cancelled during the year	At end of year	Exercise price HK$	Exercise period
Options granted to executive directors							
Zhang Lijun							
– on 26 March 2007	7,000,000	—	—	—	7,000,000	1,830	26/03/2007 to 25/03/2010
– on 6 November 2008	5,000,000	—	(5,000,000)	—	—	0.116	06/11/2008 to 06/11/2011
	12,000,000	—	(5,000,000)	—	7,000,000		
Wang Chun							
– on 1 August 2006	3,600,000	—	—	(3,600,000)	—	0.850	01/08/2006 to 31/07/2009
– on 26 March 2007	6,600,000	—	—	—	6,600,000	1.830	26/03/2007 to 25/03/2010
– on 6 November 2008	5,000,000	—	(1,000,000)	—	4,000,000	0.116	06/11/2008 to 06/11/2011
	15,200,000	—	(1,000,000)	(3,600,000)	10,600,000		
Yue Hong Chu, George							
– on 6 November 2008	4,000,000	—	(4,000,000)	—	—	0.116	06/11/2008 to 06/11/2011
– on 12 October 2009	—	1,500,000	—	—	1,500,000	1.680	12/10/2009 to 11/10/2014
	4,000,000	1,500,000	(4,000,000)	—	1,500,000		

34. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

	At beginning of year	Granted during the year	Exercised during the year	Cancelled during the year	At end of year	Exercise price HK$	Exercise period
Options granted to executive directors *(Continued)*							
Sin, Hendrick							
- on 2 March 2009	—	17,000,000	(1,000,000)	—	16,000,000	0.157	02/03/2009 to 01/03/2012
- on 12 October 2009	—	3,650,000	—	—	3,650,000	1.680	12/10/2009 to 11/10/2014
	—	20,650,000	(1,000,000)	—	19,650,000		
sub-total	31,200,000	22,150,000	(11,000,000)	(3,600,000)	38,750,000		
Options granted to independent non-executive directors							
Loke Yu, (Alias Loke Hoi Lam)							
- on 26 March 2007	605,000	—	—	—	605,000	1.830	26/03/2007 to 25/03/2010
- on 6 November 2008	1,000,000	—	(1,000,000)	—	—	0.116	06/11/2008 to 06/11/2011
	1,605,000	—	(1,000,000)	—	605,000		
Wang Zhichen							
- on 6 November 2008	1,000,000	—	(1,000,000)	—	—	0.116	06/11/2008 to 06/11/2011
Wang Linan							
- on 6 November 2008	1,000,000	—	(1,000,000)	—	—	0.116	06/11/2008 to 06/11/2011
sub-total	3,605,000	—	(3,000,000)	—	605,000		

34. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

	At beginning of year	Granted during the year	Exercised during the year	Cancelled during the year	At end of year	Exercise price HK$	Exercise period
Options granted to employees/others							
on 1 August 2006	400,000	—	—	(400,000)	—	0.850	01/08/2006 to 31/07/2009
on 8 November 2006	3,880,000	—	(3,880,000)	—	—	0.730	08/11/2006 to 07/11/2009
on 26 March 2007	65,840,000	—	(100,000)	—	65,740,000	1.830	26/03/2007 to 25/03/2010
on 17 August 2007	500,000	—	—	—	500,000	1.870	17/08/2007 to 16/08/2010
on 31 October 2008	66,300,000	—	(60,700,000)	—	5,600,000	0.100	31/10/2008 to 31/10/2011
on 6 November 2008	5,000,000	—	(5,000,000)	—	—	0.116	06/11/2008 to 06/11/2011
on 8 December 2008	2,400,000	—	(2,400,000)	—	—	0.127	08/12/2008 to 08/12/2011
on 1 April 2009	—	5,000,000	—	—	5,000,000	0.153	01/04/2009 to 31/03/2012
on 7 August 2009	—	20,000,000	(1,000,000)	—	19,000,000	1.170	07/08/2009 to 06/08/2014
on 12 October 2009	—	14,850,000	—	—	14,850,000	1.680	12/10/2009 to 11/10/2014
sub-total	144,320,000	39,850,000	(73,080,000)	(400,000)	110,690,000		
Total share options	179,125,000	62,000,000	(87,080,000)	(4,000,000)	150,045,000		

(i) On 2 March 2009, a total of 17,000,000 shares options were granted to a director of the Companyentitled the grantee to subscribe for ordinary shares at an exercise price of HK$0.157 per share. The options may be exercisable during the period from 2 March 2009 to 1 March 2012.

(ii) On 1 April 2009, a total of 5,000,000 share options were granted to a consultant entitled the grantee to subscribe for ordinary shares at an exercise price of HK$0.153 per share. The options may be exercisable during the period from 1 April 2009 to 31 March 2012.

(iii) On 7 August 2009, a total of 20,000,000 share options were granted to a supplier and employee of the Group and eligible participants and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$1.170 per share. The options may be exercisable during the period from 7 August 2009 to 6 August 2014.

(iv) On 12 October 2009, a total of 20,000,000 share options were granted to directors of the Group and eligible participants and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$1.680 per share. The options may be exercisable during the period from 12 October 2009 to 11 October 2014.

34. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Black-Scholes model. The contractual life of the share options and expectations of early exercise are incorporated into the model.

Fair value of share options granted during the year and assumptions are as follows:

	Granted on 2 March	Granted on 1 April	Granted on 7 August	Granted on 12 October
Fair value at grant date	HK$0.0741	HK$0.0954	HK$0.1521	HK$0.3034
Share price at the date of offer of grant	HK$0.1480	HK$0.1530	HK$1.0600	HK$1.6800
Exercise price	HK$0.1570	HK$0.1530	HK$1.1700	HK$1.6800
Expected volatility	115.2%	102.49%	44.19%	43.92%
Expected life	1.5 year	3 year	1 year	1 year
Expected dividends	0%	0%	0%	0%
Risk-free interest rate	0.579%	1.137%	1.943%	1.711%

The fair value of the share options granted during the year was approximately HK$10,849,000 (2008: HK$4,489,000), all of which was recognised an equity-settled share-based payment expenses during the year.

In 2009, 4,000,000 (2008: nil) share options were cancelled. Accordingly, the share-based payment expenses of HK$948,000 (2008: nil) previously recognised in the share-based compensation reserve was released to accumulated losses.

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year:

	Notes	2009 HK$'000	2008 HK$'000
Service fee income earned from an associate, TMD 1	(i)	212,722	65,476

(i) Service fee income was charged in accordance with the terms and conditions of the exclusive technology support and services agreements entered with TMD1 dated 29 April 2006.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) The remuneration of directors and other member of key management during the year was as follows:

	2009 HK$'000	2008 HK$'000
Short term benefits	19,217	10,006
Share-based payment expense	2,823	970
	22,040	10,976

(c) The amount due from an associate mainly arising from the trading transaction detailed in note (a)(i) above is unsecured, interest-free and repayable on demand. The balance as at 31 December 2009 was fully settled in March 2010.

(d) Amount due from a related company, which is disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, is as follows:

The related company is Vodone Telemedia Co., Ltd. ("VODONE Telemedia"). Dr Zhang Lijun is directors of VODONE Telemedia and the Company and has beneficial interests in both companies as at the end of reporting period. Details of the balance with VODONE Telemedia are as follows:

	2009 HK$'000	2008 HK$'000
Balance at 1 January	4,491	4,221
Balance at 31 December	5,218	4,491
Maximum amount outstanding during the year	5,218	4,491

Amount due from a VODONE Telemedia arises from trading activities with ageing from current to 30 days. The amount due from the related company is interest-free, unsecured and repayable on trading terms.

There was no amount due but unpaid, nor any allowance for doubtful debts made against the principal amounts at 31 December 2008 and 2009.

36. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debts as the aggregate of obligations under finance leases and other borrowings as disclosed in notes 25 and 26 respectively less cash and cash equivalents. Capital comprises all components of equity.

37. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. The Group is also exposed to equity price risk arising from movements in its own equity share price. These risks are limited by the Group's financial management policies and practices described below.

CREDIT RISK

The Group's credit risk is primarily attributable to its accounts receivable, other receivables and amounts due from a related company and the associate arising from trade transactions. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of third party accounts and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of accounts receivable. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a concentration of credit risk as 99% (2008: 92%) and 100% (2008: 100%) of the total accounts and other receivables was due from the group's largest customer and the five largest customers respectively.

The Directors consider that the credit risk arising from related party trading transactions is minimal as the amounts due from the associate and the related company as at 31 December 2009 have been settled in March 2010.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivable are set up in note 21.

37. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay.

Group	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or On demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
2009					
Accounts payable	151	151	151	—	—
Other payables	13,874	13,874	13,874	—	—
	14,025	14,025	14,025	—	—

Company	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or On demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
2009					
Other payables	4,981	4,981	4,981	—	—
Amount due to a subsidiary	6	6	6	—	—
	4,987	4,987	4,987	—	—

37. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Group	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or On demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
2008					
Other payables and accruals	63,767	63,767	63,767	—	—
Obligations under finance leases	31	41	11	11	19
Other borrowings	1,414	1,414	1,414	—	—
	65,212	65,222	65,192	11	19

Company	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or On demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
2008					
Other payables and accruals	62,234	62,234	62,234	—	—
Obligations under finance leases	31	41	11	11	19
Amounts due to subsidiaries	22,890	22,890	22,890	—	—
	85,155	85,165	85,135	11	19

INTEREST RATE RISK

The Group's interest bearing financial liabilities are fixed rate borrowings, comprising convertible notes and obligations from finance lease, thus exposing the Group to fair value interest rate risk. The interest rates and terms of repayment of the obligations from finance leases is disclosed in note 25 to the financial statements.

CURRENCY RISK

Most of the subsidiaries' functional currency is RMB since majority of the revenue of the Group are derived from operations in the PRC. The RMB is not freely convertible into other currencies however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2009 and 2008 may be categorised as follows:

	2009 HK$'000	2008 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	438,607	294,744
Financial liabilities		
Financial liabilities measured at amortised cost	11,087	65,212

39. EVENTS AFTER THE REPORTING PERIOD

On 11 January 2010, Vodone Telemedia Co. Ltd. ("VODONE Telemedia"), the related company of the Group, has entered into an exclusive strategic partnership agreement with Cmedia Electronics, Inc ("Cmedia") and iPeer Multimedia International Ltd ("iPeer") under a revenue sharing principle. Through cooperation with iPeer, to which Cmedia and Media Tek Inc ("MTK") are shareholders, VODONE Telemedia becomes the exclusive strategic partner of Cmedia's and iPeer's integrated mobile entertainment platform on MTK and other local and international branded mobile handsets.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the Audit Committee and approved and authorised for issue by the board of Directors on 25 March 2010.

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements of the Group and reclassified as appropriate, is set out below.

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover					
Continuing operations	298,702	65,922	58,400	7,256	—
Discontinued operations	—	—	6,426	11,346	18,007
	298,702	65,922	64,826	18,602	18,007
Profit/(loss) for the year					
Continuing operations	109,883	(122,538)	(74,058)	(71,053)	(22,815)
Discontinued operations	—	—	11,872	(42,074)	(47,333)
	109,883	(122,538)	(62,186)	(113,127)	(70,148)
Attributable to:					
Owners of the Company	105,307	(121,004)	(59,680)	(110,274)	(67,595)
Minority interests	4,576	(1,534)	(2,506)	(2,853)	(2,553)
	109,883	(122,538)	(62,186)	(113,127)	(70,148)

Five Year Financial Summary

	As at 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	679,788	370,248	325,659	315,616	69,928
Current assets	591,476	311,968	690,470	222,784	16,214
Current liabilities	(21,962)	(66,390)	(16,887)	(121,261)	(58,658)
Net current assets/(liabilities)	569,514	245,578	673,583	101,523	(42,444)
Non-current liabilities	(9,014)	(23)	(359,646)	(2,115)	(2,048)
Net assets	1,240,288	615,803	639,596	415,024	25,436