

# 第1视频®

## VODONE

### VODONE LIMITED

(Incorporated in Bermuda with limited liability)

Stock code: 82



# 2010

## Interim Report

**China's Largest  
Internet Video  
Advertising Platform**



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## CORPORATE INFORMATION

### Board of Directors

#### *Executive director*

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. 66 North 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 Address

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### Stock Code

82

The board of directors of VODone Limited (the “Company”) announces that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	<i>Notes</i>	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue	4	302,609	70,381
Cost of revenue		(66,355)	(21,308)
Gross profit		236,254	49,073
Other income	4	419	2,725
Other gains and losses	5	—	(908)
Selling and marketing expenses		(73,191)	(30,230)
Administrative expenses		(41,418)	(31,267)
Share of results of an associate		217	(1,804)
Profit/(loss) before income tax	6	122,281	(12,411)
Income tax expense	7	(3,619)	—
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>118,662</b>	(12,411)
Other comprehensive income:			
Exchange differences arising on translation		4,480	(142)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>123,142</b>	(12,553)
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		107,282	(11,273)
Minority interests		11,380	(1,138)
		<b>118,662</b>	(12,411)
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		111,427	(11,415)
Minority interests		11,715	(1,138)
		<b>123,142</b>	(12,553)
Earnings/(loss) per share			
— Basic ( <i>HK Cents</i> )	8	4.59	(0.60)
— Diluted ( <i>HK Cents</i> )	8	4.51	(0.60)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2010 (Unaudited) HK\$'000	As at 31 December 2009 (Audited) HK\$'000
	<i>Notes</i>		
<b>ASSETS AND LIABILITIES</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	30,993	33,552
Interest in an associate	10	51,962	51,473
Goodwill	11	475,715	474,314
Intangible assets		115,790	119,596
Deposits for acquisition of property, plant and equipment		—	853
		<b>674,460</b>	679,788
<b>CURRENT ASSETS</b>			
Accounts receivable	12	45,493	14,374
Other receivables, deposits and prepayments		266,946	177,418
Amount due from an associate	17(d)	116,920	55,407
Amount due from a related company	17(c)	5,149	5,218
Bank balances and cash		436,996	339,059
		<b>871,504</b>	591,476
<b>CURRENT LIABILITIES</b>			
Accounts payable		1,022	151
Other payables and accruals		12,844	17,528
Deposits received		78	2,467
Taxation		3,625	1,816
		<b>17,569</b>	21,962
<b>NET CURRENT ASSETS</b>		<b>853,935</b>	569,514
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,528,395</b>	1,249,302
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		9,014	9,014
<b>NET ASSETS</b>		<b>1,519,381</b>	1,240,288
<b>EQUITY</b>			
Share capital	13	23,707	22,664
Reserves		1,437,151	1,170,816
Equity attributable to owners of the Company		<b>1,460,858</b>	1,193,480
Minority interests		58,523	46,808
<b>TOTAL EQUITY</b>		<b>1,519,381</b>	1,240,288

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital HK\$'000	Shares to be issued HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share-based	Exchange	Accumulated (losses)/ profit HK\$'000	Total HK\$'000	Minority	
					compensation	fluctuation			Interests	Total equity
					reserve	reserve				
At 1 January 2009 (audited)	17,314	8,292	868,746	33,474	22,170	63,443	(423,587)	589,852	25,951	615,803
Total comprehensive income for the period	—	—	—	—	—	(142)	(11,273)	(11,415)	(1,138)	(12,553)
Issue of shares	237	(8,292)	8,055	—	—	—	—	—	—	—
Shares issued on subscription of new shares	1,440	—	77,760	—	—	—	—	79,200	—	79,200
Shares issued on exercise of share options	621	—	8,988	—	(3,085)	—	—	6,524	—	6,524
Recognition of share-based payment expense	—	—	—	—	1,738	—	—	1,738	—	1,738
At 30 June 2009 (unaudited)	19,612	—	963,549	33,474	20,823	63,301	(434,860)	665,899	24,813	690,712

	Attributable to owners of the Company									
	Share capital to be issued HK\$'000	Shares HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share-based	Exchange	Accumulated (losses)/ profit HK\$'000	Total HK\$'000	Minority	
					compensation	fluctuation			Interests	Total equity
					reserve	reserve				
At 1 January 2010 (audited)	22,664	—	1,361,496	33,474	26,708	66,470	(317,332)	1,193,480	46,808	1,240,288
Total comprehensive income for the period	—	—	—	—	—	4,145	107,282	111,427	11,715	123,142
Shares issued on exercise of share options	1,043	—	187,851	—	(18,727)	—	—	170,167	—	170,167
Reduction of share premium	—	—	(800,000)	460,503	—	—	339,497	—	—	—
Declaration of dividends	—	—	—	(14,216)	—	—	—	(14,216)	—	(14,216)
At 30 June 2010 (unaudited)	23,707	—	749,347	479,761	7,981	70,615	129,447	1,460,858	58,523	1,519,381

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<b>(55,792)</b>	(96,231)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(447)</b>	(1,527)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<b>153,674</b>	85,720
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>97,435</b>	(12,038)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE CASH AND CASH EQUIVALENT	<b>502</b>	(21)
AT BEGINNING OF PERIOD	<b>339,059</b>	249,846
CASH AND CASH EQUIVALENT AT END OF PERIOD	<b>436,996</b>	237,787

## NOTES TO FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) No 34 “Interim Financial Reporting” and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by The Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The consolidated financial statements have been prepared on the historical cost convention.

The condensed consolidated financial statements should be read in conjunction with the Group's 2009 annual financial statements. The accounting policies of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009.

The condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”).

### 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has applied, for the first time, the new and revised standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA, which are effective for the Group's financial year beginning on 1 January 2010.

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

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but not yet effective at 30 June 2010.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>2</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>3</sup>
HKAS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures from First-time Adopter <sup>4</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK(IFRIC) — Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement <sup>2</sup>
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>3</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Company’s financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

### 3. 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 Six months ended 30 June		Lottery-related business Six months ended 30 June		Mobile gaming business Six months ended 30 June		Total Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue from external customers	164,692	70,381	85,542	—	52,375	—	302,609	70,381
Reportable segment profit/(loss)	46,586	1,558	51,614	—	36,568	—	134,768	1,558
Interest revenue	411	169	—	—	7	—	418	169
Depreciation and amortisation	(3,485)	(2,233)	(290)	—	(3,942)	—	(7,717)	(2,233)
Income tax expenses	(3,619)	—	—	—	—	—	(3,619)	—
	As at 30 June 2010	As at 31 December 2009	As at 30 June 2010	As at 31 December 2009	As at 30 June 2010	As at 31 December 2009	As at 30 June 2010	As at 31 December 2009
Additions to non-current assets	727	15,968	797	61,162	178	270,276	1,702	347,406
Reportable segment assets	669,345	622,427	90,625	97,260	328,481	289,955	1,088,451	1,009,642
Reportable segment liabilities	8,745	9,069	3,170	1,338	14,416	13,105	26,331	23,512

During 2009, the Group's turnover and operating results were mainly derived from tele-media business in PRC.

## 3. SEGMENT REPORTING (Continued)

## (b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Profit/(loss) before income tax		
Reportable segment profit	134,768	1,558
Other gains and losses	1	1,749
Share of loss of an associate	217	(1,804)
Unallocated corporate expenses	(12,705)	(13,914)
<b>Consolidated profit/(loss) before income tax</b>	<b>122,281</b>	<b>(12,411)</b>
	As at 30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
Assets		
Reportable segment assets	1,088,451	1,009,642
Interest in an associate	51,962	51,473
Unallocated corporate assets	405,551	210,149
<b>Consolidated total assets</b>	<b>1,545,964</b>	<b>1,271,264</b>
Liabilities		
Reportable segment liabilities	26,331	23,512
Unallocated corporate liabilities	252	7,464
<b>Consolidated total liabilities</b>	<b>26,583</b>	<b>30,976</b>

### 3. SEGMENT REPORTING (Continued)

#### (c) Geographical information

During 2010 and 2009, the Group's operations and non-current assets are situated in the PRC in which all of its revenue was derived.

#### (d) Major customers

As disclosed in note 17(a), the Group's associate is the only major customer with whom transactions have exceeded 10% of the Group's revenues. Revenues from the Group's associate amounted to approximately HK\$132,874,000 (2009: HK\$64,380,000) in the tele-media segment and amounted to approximately HK\$39,430,000 (2009: HK\$ Nil) in the lottery-related segment.

### 4. REVENUE AND OTHER INCOME

Revenue, which is also turnover, represents the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and project services fees earned. An analysis of revenue and other income is as follows:

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue		
Telecomedia business:		
— Advertising and services income	164,692	70,381
Lottery-related business:		
— Service and advertising income	85,542	—
Mobile gaming business:		
— Sale of mobile games	52,375	—
	<b>302,609</b>	70,381
Other income		
Interest income	419	559
Others	—	2,166
	<b>419</b>	2,725
	<b>303,028</b>	73,106

## 5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net foreign exchange losses	—	(908)

## 6. PROFIT/(LOSS) BEFORE INCOME TAX

The Group's profit/(loss) from operating activities is arrived at after charging:

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Depreciation	4,278	2,622
Auditor's remuneration	102	40
Staff costs (excluding directors' remuneration)		
Salaries and wages	16,460	8,010
Pension fund contributions	2,734	1,626
Share-based payments	—	477
	<b>19,194</b>	10,113

## 7. INCOME TAX

Taxation in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Current tax — the PRC — provision for the period	3,619	—

## 7. INCOME TAX (Continued)

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 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 TMD2 was fully exempted from PRC income tax for years 2006 to 2008, followed by a 50% reduction in the PRC income tax for the next 3 years, 2009 to 2011.

## 8. EARNINGS/(LOSS) PER SHARE

	Six months ended 30 June	
	2010 (Unaudited) HK cents	2009 (Unaudited) HK cents
Basic earnings/(loss) per share	4.59	(0.6)
Diluted earnings/(loss) per share	4.51	(0.6)

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

### Profit/(loss)

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Profit/(loss) for the period attributable to owners of the Company, used in the basic and diluted earnings/(loss) per share calculation	107,282	(11,273)
<b>Number of shares</b>		
Weighted average number of ordinary shares (basic)	2,338,925,554	1,765,444,991
Effect of dilution — share options	42,050,009	—
Weight average number of ordinary shares for basic earnings/(loss) per share, adjusted for the effect of dilution	2,380,975,563	1,765,444,991

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

No adjustment has been made to the basic earnings per share presented for the period ended 30 June 2009 as the share options outstanding at the period end had an anti-dilutive effect on the basic loss per share. Therefore the basic and diluted loss per share in 2009 are the same.

**9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group acquired property, plant and equipment of approximately HK\$1,719,000 (2009: HK\$96,000).

**10. INTEREST IN AN ASSOCIATE**

	As at 30 June 2010 (Unaudited) HK\$'000	As at 31 December 2009 (Audited) HK\$'000
Share of net liabilities	(3,339)	(3,538)
Goodwill	55,301	55,011
	<b>51,962</b>	51,473

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

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

## 10. INTEREST IN AN ASSOCIATE (Continued)

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

	As at 30 June 2010 (Unaudited) HK\$'000	As at 31 December 2009 (Audited) HK\$'000
Total assets	86,143	64,002
Total liabilities	(92,957)	(71,222)
Net liabilities	(6,814)	(7,220)
Group's share of the associate's net liabilities	(3,339)	(3,538)

### Six months ended 30 June

	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue	133,808	64,389
Profit/(loss) for the period	443	(3,689)
Group's share of the associate's profit/(loss) for the period	217	(1,804)

## 11. GOODWILL

	As at 30 June 2010 (Unaudited) HK\$'000	As at 31 December 2009 (Audited) HK\$'000
Balance at beginning of period/year	474,314	265,188
Acquisition of subsidiaries	—	208,636
Exchange adjustments	1,401	490
Balance at end of period/year	475,715	474,314

## 11. GOODWILL (Continued)

Goodwill is allocated to the Group's cash generating units ("CGUs") identified to country of operation and business segment. The carrying amounts as at 30 June 2010 were related to the Group's tele-media service business and mobile gaming business in the PRC.

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.

## 12. ACCOUNTS RECEIVABLE

An aging analysis of the accounts receivable as at the end of reporting date, based on payment due date, and net of provisions is as follows:

	<b>As at 30 June 2010 (Unaudited) HK\$'000</b>	As at 31 December 2009 (Audited) HK\$'000
Within 1 month	<b>36,491</b>	20
2 to 3 months	<b>9,002</b>	14,340
4 to 6 months	—	3
7 to 12 months	—	—
Over 1 year	—	11
	<b>45,493</b>	14,374

## 13. SHARE CAPITAL

	As at 30 June 2010 (Unaudited) HK\$'000	As at 31 December 2009 (Audited) HK\$'000
<i>Authorised:</i>		
50,000,000,000 ordinary shares of HK\$0.01 each	<b>500,000</b>	500,000
<i>Issued and fully paid:</i>		
2,370,744,996 (31 December 2009: 2,266,427,996) ordinary shares of HK\$0.01 each	<b>23,707</b>	22,664

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

	Number of ordinary shares	Share capital HK\$'000
At 1 January 2009	<b>1,731,366,355</b>	17,314
Shares issued on repurchase of convertible notes	<b>23,692,308</b>	237
Subscription of new shares	<b>144,000,000</b>	1,440
Shares issued on exercise of share options	<b>87,080,000</b>	870
Shares issued on acquisition of assets	<b>87,500,000</b>	875
Shares issued on placing of shares	<b>92,000,000</b>	920
Shares issued on acquisition of subsidiaries	<b>100,789,333</b>	1,008
At 31 December 2009	<b>2,266,427,996</b>	22,664
Shares issued on exercise of share options	<b>104,317,000</b>	1,043
At 30 June 2010	<b>2,370,744,996</b>	23,707

## 14. OPERATING LEASE ARRANGEMENTS

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Minimum lease payments paid under operating leases	4,243	3,796

At 30 June 2010, the Group had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	As at 30 June 2010 (Unaudited) HK\$'000	As at 31 December 2009 (Audited) HK\$'000
Within one year	17,461	8,073
In the second to fifth years, inclusive	47,054	9,020
After five years	3,306	—
	67,821	17,093

## 15. COMMITMENTS

	As at 30 June 2010 (Unaudited) HK\$'000	As at 31 December 2009 (Audited) HK\$'000
Contracted, but not provided for:		
— Acquisition of property, plant and equipment	874	967

## 16. 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.

During the six months ended 30 June 2010, a total of 104,317,000 share options were exercised by the participants. The proceeds were used as general working capital of the Group.

## 17. RELATED PARTY TRANSACTIONS

Name of party	Relationship
VODone Telemedia Co. Ltd. ("VODONE")	Dr. Zhang Lijun is a shareholder of VODONE
Sino Sky Telecom Industry Group	Minority shareholder of TMD2
北京彩視界信息技術有限公司	A subsidiary of VODONE

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

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Service fee income earned from the associate, TMD1	172,304	64,380

**17. RELATED PARTY TRANSACTIONS** (Continued)

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

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Short term benefits	6,224	6,215
Share-based payments	—	1,260
	<b>6,224</b>	7,475

- (c) The amount due from a related company is interest free, unsecured and repayable on demand.
- (d) The amount due from an associate mainly arising from the trading transaction detailed in note (a) above is unsecured, interest free and repayable on demand.

**18. POST BALANCE SHEET EVENTS**

On 19 July 2010, the Company announced entering into a framework agreement with Chinasatcom Technology Consultation Co. Ltd ("Chinasatcom") whereby the Company would acquire certain assets covering under a cooperation agreement entered into between Chinasatcom and Heilongjiang Welfare Lottery Centre. The Company would pay a cash consideration of HK\$2,275,000 and the issuance of 4,550,000 new Shares to Chinasatcom. Details were disclosed in the announcement of the Company of even date.

**19. 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 30 August 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATING RESULTS

Turnover of the Group for the six months ended 30 June 2010 was HK\$302,609,000, an increase of around 330% as compared with the corresponding period of last year. Profit attributable to owners of the Company was HK\$107,282,000 while the Group reported a loss of HK\$11,273,000 in the corresponding period in last year.

### BUSINESS REVIEW AND DEVELOPMENT

#### Tele-media Business

##### *VODone Website (www.v1.cn)*



During the business development in the first half of 2010, the Website Business Unit (WBU) which management structure had been re-aligned, launched a strategic penetrating campaign with a new master website.

The newly launched master website (www.v1.cn) recorded substantial increases in both the number of independent viewers and ALEXA rankings. The number of independent viewers exceeded 9 million. On identifying the 320 million white-collar elites in cities all over China who are able to release and receive shared mini-videos as our target viewers, the positioning of our master website has grown clearer — aiming at becoming a leading mini-video news portal in China with unique characteristics.

Following the launch of the “Mini-Video News” concept, a series of characterized internet mini-video programs featuring topical issues, commentaries, servicing, live broadcasting, celebrity and interactions have been launched respectively. Amongst which the two major internet live broadcasting interview programs — Happy Boy Singer Evaluation (快男評快男) and Blossoming Flowers Evaluation (花兒評朵朵), linked with Hunan Radio and TV Broadcasting Group (湖南廣播集團), attracted a substantial number of messages from netizens during the two 120-minute-each broadcasting sessions. It created a miracle in the audience rates of internet live broadcasting.

For the major internet news live broadcasting show linked with Peking University and Renmin University of China — View the World (《坐視天下》), Professors Kong Qingdong (孔慶東) of Peking University (being a famous first-class scholar of China, an author of best-seller books and a renowned critic) and Professor Zhou Xiaozheng (周孝正) of Renmin University of China, were invited to host online sessions 4 hours daily to analyze in depth and comment on the stories behind news. Toned as simple but elegant, and positioned for the general public but with scholars’ visions, the program leads netizens to view the world in Chinese perspective and style.

From the full coverage of the automobile show in Beijing in 2010 to the success of Charity Concert of Former Ministers (老部長慈善演唱會) which was jointly promoted and held with 12 former ministers of the PRC; from the joint hosting of the 4th session of National Youth Arts Festival Spiritual Dance Hubei Wudang (中國青少年藝術屆靈動湖北武當) to the national audition for The King of Comedy II (喜劇之王2) jointly held with famous movie star Mr. Stephen Chow (周星馳); from the intense debate by students of Chinese universities in the mock APEC conference to the Have-to-Change Keep Fit Contest (非變不可減肥大賽) where participants experienced success against all odds, the first half of 2010 saw VODone promoted and jointly hosted 13 major campaigns were well received and won the Company overwhelming recognition from industry players and the media at the Half-Year Brand Internet Summit of China (半年度的品牌中國互聯網峰會).

Turning to the business development in the second half, VODone will endeavor to maintain the passion and high spirit of the first half of the year and to roll out two major internet terminal products for the white-collar elites in cities, namely, the first metro mobile internet radio station in China and a 24-hour live feed finance interactive TV station for mobile phones, the first of its kind in China as well. In addition, a series of internet mobile video products will be launched to cater for the needs of target users better with the ultimate aim at strengthening the adherence of frequent users. In the second half of 2010, we will continue to increase the influence of VODone in order to boost the attention of advertisers.

## VODone On-Line Advertising Platform (bus.vodone.com)

As the largest and most influential internet video advertisement display platform in China with an average advertisement page views of 170 million per day, VODone BUS had seen a sustainable growth trend in the first half of 2010 and recorded satisfactory development and improvement in terms of number of advertisements, customer growth, number of terminals, product functions, advertising effectiveness and overall degree of customer satisfaction.

VODone BUS is being upgraded systematically. After the upgrading, it will provide a more advanced proprietary platform for the posting and management online advertisements. The upgraded platform will also serve as the platform for union participants to share experience and information, further enhancing the business mode for video advertising.

Currently, the research and development of MOBUS wireless advertising platform in the mobile internet sector has been substantially completed, laying a solid foundation for further development of advertisements delivery platform of VODone BUS in the broader wireless internet sector.

Diversification in the advertising business together with the holding of large-scale performance events including the outdoor Music Festival in Yixian and Jacky Zhang's World Tour Concert 2010 have opened up opportunities for business co-operation and made us the working partner of video filming and internet video promotion for《非同凡響》, a draft picking music program of Chinese music industry leaders produced by Zhejiang Satellite TV. We have planned and implemented online- and offline-based marketing resolutions in combination with all advantages for major clients from various sectors, which were well received by the clients.

In addition to the existing VODone media, we have also strengthened the collaborations with televisions, radio stations, plain media, outdoor media and other internet media. The integration of advertising resources will continue to satisfy customers' various needs from time to time.

## Lottery Related Business

奉獻公益 樂善人生

VODone Lottery View, wholly-owned by the VODone Group, is the Group's lottery operation platform which provides operation supports and services for lottery buyers focusing on mobile lottery, telephone betting, lottery shops, and Internet video information.

Currently the lottery betting services of VODone Lottery View covers all nationwide welfare lotteries in China which typically include dual-colored ball, 3D and Constant Lottery, and all nationwide sports lotteries in China which typically includes Pailiesan (排列三), Qilecai (七樂彩), Daletou (大樂透) and Qixingcai (七星彩), and three types of new single match game betting (競彩) which are extremely challenging and exciting. VODone Lottery View has established close cooperations with lotteries centres of more than 20 provinces in China. The recent launches of the vastly popular PK10 and Happy 8 (快樂8) by the Beijing Welfare Lottery Center have provided new experience to lottery buyers in Beijing. The great variety of lotteries has catered for the various preferences of lottery players.



Lottery View also has maintained in-depth cooperations with major mobile software manufacturers, brand mobile manufacturers and mobile terminal operators including Cmedia (驊訊), Longcheer (龍旗), Hangzhou SKY-MOBI (杭州斯凱), Konka, Lenovo-Mobile (聯想移動), K-touch (天宇朗通), Vogins Technology (沃勤科技), China Mobile 139 Community and China Unicom. It has become Minsheng Bank's exclusive strategic partner for lottery business. Meanwhile, Lottery View is in cooperation with entities of substantial scale to conduct research on mobile lottery betting via the platforms of Android, Mstar and iPhone. Moreover, the large number of Lottery View users has also attracted more attention from advertisers. VODone Lottery View has developed into a multi-channel lottery sales chain and is in a rapid growing mode leveraging on its multi-dimension and multi-channel business.

VODone mobile lottery business has been growing rapidly. Starting from the late May and up to 31st July this year, VODone Lottery View's mobile lottery application has been embedded in about 12 million mobile handsets, with an annual target of 40 million mobile handsets for 2010. In addition, through downloading of mobile software, VODone's lottery software has covered the majority of mobile end users in the Chinese market. As of 30th June this year, the registered users of VODone Lottery View had exceeded 9 million.

The marketing activities for World Cup Lottery which spanned from 25th June to 12th July this year had driven up VODone Lottery View's business. Those marketing events comprised lottery purchasing by mobile, promotions at lottery shops, promotion at bars in Guangzhou, virtual betting game etc. During the period, players winning grand prizes of RMB2.8 million or RMB5 million came up frequently, it was considered by lottery buyers as lottery paradise.

In early February 2010, the first VODone Single Match Game Lottery shop was opened in a prime commercial area in Guangzhou, and the second shop in Guangzhou, namely, the Single Match Game Lottery flagship shop was opened in April. In May, two more lottery shops were opened in Hangzhou and Langfang respectively. Despite the fact that these shops had only operated for a short period of time, they achieved satisfactory sales performance. According to the sales figures released by the relevant sports lottery centers in June, the Group's two lottery shops in Guangzhou stood out from 574 lottery shops of Guangzhou City and ranked the top two, and won commendations and cash incentives from the Guangzhou Sports Lottery Center. The other two lottery shops also ranked top in terms of sales in Hangzhou and Langfang respectively.



VODone Lottery View will continue to collaborate with corporations from the relevant industries to improve its multi-channel, multi-platform and full range lottery business systems. As European Big 5 Football Leagues, NBA and the Asian Games are to be held successively, the next climax of lottery sales is upcoming. In response to this, VODone Lottery View has formulated a full set of marketing strategies to capitalize on the new wave of lottery sales.



In order to further satisfy the increasingly diverse demands of lottery buyers, continue to create innovative sales channels for welfare lotteries and provide better services, a mobile gaming lottery platform was launched in Heilongjiang Province in April 2010. Such lottery platform was developed by Heilongjiang Welfare Lottery Centre based on its original technology in lottery platform build up, and VODone provided technical support to the platform.

It was the second cooperation between the centre and VODone in the development of mobile gaming lottery platform technology. The new platform was an upgrade in the technology and display for mobile lottery. It enables players to enjoy great sensory funs when purchasing lotteries and is compatible with the most attractive high frequency Constant Lottery games. In addition, those versions which are compatible with various welfare lotteries including dual-colored ball will be introduced in the future.

According to the statistics of the Ministry of Finance of the PRC, for the first half of 2010, the total sales of lottery in the country amounted to RMB77.236 billion, representing an increase of 23.0% or RMB14.462 billion as compared to the first half of 2009. Out of which, RMB44.703 billion were contributed from welfare lotteries, representing an increase of 25.2% or RMB9.010 billion as compared to the first half of 2009; RMB32.533 billion were contributed from sports lottery, representing an increase of 20.1% or RMB5.452 billion as compared to the first half of 2009. The total sales of lottery in China in 2009 amounted to RMB132.46 billion which comprised sales of welfare lottery of RMB75.58 billion and sales of sports lottery of RMB56.88 billion. It is generally believed in the industry that a strong growth will be maintained in the second half of this year.

### **Mobile Gaming Business**

In October 2009, the Group acquired 70% equity interest of Dragon Joyce Limited (the “Dragon Joyce Group”). Dragon Joyce Group is engaged in the development and sale of mobile games under the brand name of “KK Fun” and has become the Group’s international professional mobile games developer and operator with a focus on mobile gaming.

The target users of KK Fun’s mobile gaming business in the PRC are very clear — low and medium end consumers. These groups of consumers are young and their lifestyle are relatively monotonous. They obtain entertainment information through limited means. In order to provide better services to these users, we have converted the designs of games from professional into mass-oriented, the interfaces from dazzling into basic and the operations from complicated into simple. We have also introduced trial gaming (without payment), free gaming and payment for gaming tools, etc. All these efforts have paid off and won recognition from users and remarkable returns.

Leveraging on Dragon Joyce Group’s precise positioning for the market of low and medium end consumers, KK Fun has spent three years to establish a channel which is most effective in promoting games to these consumers, namely, forging deep cooperation with over 500 domestic mobile manufacturers and solution providers to pre-install games and promote the downloading of games by users.

During the first half of 2010, as Dragon Joyce Group had 14 million mobile handsets installed with mobile games in the PRC market, the annual target is to install 25 million mobile handsets. In the first half of 2010, the average monthly subscribers amounted to 7.3 million.

Commencing from April 2010, Dragon Joyce Group had become the first entity which was granted the right to develop a series of stand-alone and online mobile games featuring the World Expo mascot “Haibao” and the animated movie “Haibao is Coming” (《海寶來了》), and it successfully launched 10 games at the end of June. In June 2010, Dragon Joyce Group was exclusively licensed by MARVEL of the U.S.A. for use of the image of its character Iron Man in the PRC market to develop a series of Iron Man-based mobile games, which will be officially released in September 2010. Up to the first half of the year, more than 100 mobile games have been launched in the PRC market. In May 2010, “Douwan” (豆玩), an online casual fighting game platform developed by KK Fun, was released. The number of registered users reached 0.5 million within only two months after its launch.



Dragon Joyce Group (and its former group) is one of the first PRC game operators who participated in the overseas mobile gaming markets. On reaching agreements of cooperation with mobile operators from 86 foreign countries, Dragon Joyce Group successfully hosted a launch campaign on the global strategy of mobile gaming for “KKFUN GLOBAL (快樂•風卷全球)” in January 2010, which had made the headlines in the industry. Dragon Joyce Group has opened up a market chain which focuses on the design and release products and fees settlement for overseas markets and has become a leader of overseas mobile gaming markets. In May 2010, leveraging on the existing cooperation channels with overseas operators, targeting on countries which have a tremendous spending mobile gaming, KK Fun customized its business and operation design with local language elements, and further strengthened the cooperation with local payment partners.

## Outlook



In the second half of the year, in respect of the domestic mobile gaming market, leveraging on its solid market position in non-smart mobile phones, Dragon Joyce Group will further strengthen its products, sales channels and users management in order to further increase market share and enhance users' activity. In addition, Dragon Joyce Group will step up its efforts in penetrating into the smart mobile gaming markets in the second half of the year. It plans to launch 3 major horizontal version ARPG games in August 2010, which are based on Android OS: War of Devils (《諸魔之戰》), Big Words of Western Tour (《大話西遊》) and Qin (《秦》); in September 2010, the first major online mobile lottery game in China, Pilot Zillionaire (《飛行棋大富翁》). To tap into the mobile social gaming market, Dragon Joyce Group will introduce the first virtual modern life operating mobile social web game Sleepless City (《不夜都市》) and plans to launch this social web game on SNS community of VODone Linfo in December this year.

In the second half of 2010, Dragon Joyce Group will complete the localization of its business and payment system in certain southeastern countries, including Thailand, Malaysia and Indonesia, to further boost the revenue from its overseas mobile gaming business.

## Linfo

Linfo ([www.linxun.com](http://www.linxun.com)), a new mobile internet community, which was jointly developed and operated by VODone Group and France Telecom of Beijing, commenced operation in May 2010. It mainly targets at 3G mobile phone users. Currently, it supports four major operating systems i.e. Symbian, Windows Mobile, iPhone and Android, and is compatible with Nokia, HTC, Apple, Motorola and Sony Ericsson, etc. The official operation of "Linfo" marked the emergence of the first mobile internet community with full legitimacy in China.

Linfo mainly provides information services for mobile phones. By using the maps, registered members may conveniently find out their own location and the restaurants, entertainment and leisure amenities nearby. In addition, members can also search for business information and discounts and make reservations through Linfo. It also provides other information including news, property prices and finance and economic news. Moreover, members may make contact with their relatives, friends and work partners by way of instantaneous communications via Linfo.

Linfo has successfully created a one-stop mobile application platform which combines maps, mobile phones, information and social network services seamlessly.

Within a short spell of three months from its operation, the number of registered members of Linfo had exceeded one million and the number is still surging at a fast pace. That reflects Linfo is well received by the public and has integrated into personal lives, and that one-stop mobile application is an inevitable trend in the future.

From mid 2010, Linfo will strengthen its application services and continue to provide value-added information and more attentive services for its users according to their different needs in relation to entertainment, leisure and social activities. Further, we will launch the traditional Chinese version of Linfo in the near future for the users in Hong Kong, Macau and Taiwan.

Since the number of 3G users in China is growing rapidly, and the operation of our Linfo has entered its peak, it is expected that the number of potential registered users will further increase steadily, resulting in a new growth momentum for our advertising revenue and thus laying a solid and sound foundation for future growth.



## Business Outlook — the Triple Networks Convergence (三網融合)

The so called triple networks convergence of telecom, broadcasting and the Internet networks aims to break down regulatory barriers among the three industries and allow broadcasters to commence provision of telecom services and telecom operators to provide video contents. As such, the prospect of developing Internet video through the Internet is immeasurable. With the huge netizen population of over 300 million in China, the triple networks convergence will become the prevailing trend. Accordingly, the eventual integration of the transmission platforms will bring us to an era of “Contents are King — Services are King”. After implementation of the new regulations, state-owned telecom enterprises under the supervisions of relevant authorities: (a) on top of its existing programs on current politics, to engage in the production of TV programs, transmission of signals from Internet audio-visual programs, rebroadcasting of audio-visual programs on current political news and (b) apart from the radio and television mood of broadcasting, to engage in public audio-video programs through Internet, IPTV transmission and distributions via Mobile TV. This will have impacts on the current homogeneous trend of the TV broadcasting industry. The triple networks convergence has no technical obstacles but contents remains a key factor at the moment. The ability to find an innovative solution that can make a breakthrough in legislations, standardization, systems, operating modes and contents presents a pressing problem to be resolved.



VODone is a content integrator. Along with the triple networks convergence, new markets and content distribution channels are emerging, which will be beneficial not only to the development of the Company but also to the entire industry. It is believed to benefit VODone comprehensively as it holds a full set of licenses for all three networks. In addition, VODone already made its first attempt in the triple networks

convergence as early as 2009. Lottery business is a successful example of displaying the advantages of triple networks convergence. In the second half of 2010, VODone will also continue to pay close attention to the development of the triple networks convergence. The emergence of the triple network convergence allows VODone to further promote its mobile handsets based lottery and gaming business. It helps the Group to become China's largest mobile media.

“While the government is still formulating policies on the triple networks integration, from the date of its inception in 2005, VODone has converged with others between networks!” Zhang Lijun, the chairman of VODone said, “Mobile lottery is a new product we developed based on the convergence. It is more than lottery purchasing as it has applied the functions of all three networks. Through televisions, products are advertised; through Internet techniques, payments are effected; and the users’ mobiles are the terminals which can be used at anywhere and at anytime. This mode is relatively new in the PRC”.

## **FINANCIAL REVIEW**

Turnover of the Group for the six months ended 30 June 2010 was HK\$302,609,000, an increase of around 330% as compared with the corresponding period of last year. Profit attributable to owners of the Company was HK\$107,282,000 while the Group reported a loss of HK\$11,273,000 in the corresponding period in 2009.

### **Tele-media Services Business**

The tele-media service business contributed a turnover of HK\$164,692,000 to the Group for the six months ended 30 June 2010. Such turnover represents an increase of around 134% as compared with the corresponding period of last year.

### **Lottery Related Income**

As of 30 June 2010, the Group recorded a lottery-related income of HK\$85,542,000, while there were no comparative figures for this as such business was largely launched in the second half of 2009. Such income represents an increase of 32% as compared with the second half of 2009.

### **Mobile Gaming Business**

For the first half of 2010, revenue from the mobile gaming business which was acquired by the Group in October 2009 significantly increased to HK\$52,375,000 from HK\$16,958,000 in the second half of 2009, an increases of 209%. There were no comparative figures for the first half of 2009 as such business was launched in October 2009.

## Liquidity and Financial Resources

As at 30 June 2010, the Group had HK\$436,996,000 cash and cash equivalents (31/12/2009: HK\$339,059,000). Working capital was HK\$853,935,000 as compared with the working capital of HK\$569,514,000 at the end of last year. The Group did not have any bank borrowings as at 30 June 2010 and 31 December 2009. The exercise of share options by eligible participants of Group's share option scheme also contributed extra liquidity to the Group. During the period under review, a total of 104,317,000 share options were exercised by the participants. The total proceeds arising from the exercise of such share options amounted to HK\$170,240,000 and were used as general working capital of the Group.

Since the Group generates most of the revenue and incurs most of the costs in Renminbi, there was no material foreign exchange risk.

As at 30 June 2010, the Group's current ratio was 49 (31/12/2009: 27). The Group had no debt as at 30 June 2010 and 31 December 2009. The Directors are of the view that, taking into account the financial resources available to the Group, the Group will have sufficient working capital for its present requirement.

## Charges and Contingent Liabilities

As at 30 June 2010 and 31 December 2009, the Group had no charges on its assets and no material contingent liabilities.

## Capital Structure

As at 30 June 2010, the Group had total assets of HK\$1,545,964,000 (31/12/2009: HK\$1,271,264,000) which were financed by shareholders' funds of HK\$1,460,858,000 (31/12/2009: HK\$1,193,480,000), total liabilities of HK\$17,569,000 (31/12/2009: HK\$21,962,000) and minority interests of HK\$58,523,000 (31/12/2009: HK\$46,808,000).

## **EMPLOYEES REMUNERATION AND BENEFITS**

As at 30 June 2010, the Group had 496 employees in the PRC (Beijing and Shenzhen) and Hong Kong. They include the management and the employees in administration, production and sales personnel. The Group regularly reviewed its professional team members and will expand its management team whenever necessary.

The Group remunerates its Directors and staff primarily based on their contribution, responsibility, qualification and experience. The Group has implemented a staff stock option plan. Options have been granted to directors and other employees to encourage them towards enhancing the value of the Group and promote the long-term growth of the Group.

Furthermore, the Group offers training programs for employees to upgrade their skills and knowledge on a regular basis.

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2010.

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

As at 30 June 2010, 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:**

<b>Name of director</b>	<b>Capacity</b>	<b>Number of ordinary shares held</b>	<b>% of total issued share capital</b>
Zhang Lijun	Beneficial owner/ Interest of spouse	340,367,376 <i>(Note 1)</i>	14.36%
Wang Chun	Beneficial owner/ Interest of spouse	340,367,376 <i>(Note 2)</i>	14.37%
Sin, Hendrick	Beneficial owner	2,000,000	0.08%
Wang Linan	Beneficial owner	1,000,000	0.04%
Wang Zhichen	Beneficial owner	1,000,000	0.04%

*Note 1:* Of these 340,367,376 shares, 329,867,376 shares are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 10,500,000 shares through the interest of his spouse, Ms. Wang Chun.

*Note 2:* Of these 340,367,376 shares, 10,500,000 shares are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 329,867,376 shares through the interest of her spouse, Dr. Zhang Lijun.

**(b) Long position in underlying shares of the Company:**

<b>Name of director</b>	<b>Capacity</b>	<b>Number of underlying shares in respect of the share option granted</b>	<b>% of total issued share capital</b>
Zhang Lijun	Beneficial owner/ Interest of spouse	4,000,000 (Notes 1)	0.17%
Wang Chun	Beneficial owner/ Interest of spouse	4,000,000 (Notes 2)	0.17%
Sin, Hendrick	Beneficial owner	13,650,000	0.58%
Li Xiaohua	Beneficial owner	3,800,000	0.16%

*Note 1:* These share options were held through the interest of his spouse, Ms. Wang Chun.

*Note 2:* These share options were directly held by Ms. Wang Chun.

Save as disclosed herein, as at 30 June, 2010, 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.

**SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2010, save as disclosed 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.

## 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 are recognised as an expense during the year of grant.

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

	At beginning of period	Granted during the period	Exercised during the period	Cancelled during the period	At end of period	Exercise price HK\$	Exercise period
<b>Options granted to executive directors</b>							
Zhang Lijun							
- on 26 March 2007	7,000,000	-	(7,000,000)	-	-	1,830	26/03/2007 to 25/03/2010
Wang Chun							
- on 26 March 2007	6,600,000	-	(6,600,000)	-	-	1,830	26/03/2007 to 25/03/2010
- on 6 November 2008	4,000,000	-	-	-	4,000,000	0.116	06/11/2008 to 06/11/2011
	10,600,000	-	(6,600,000)	-	4,000,000		
Sin, Hendrick							
- on 2 March 2009	16,000,000	-	(6,000,000)	-	10,000,000	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
	19,650,000	-	(6,000,000)	-	13,650,000		
Li Xiaohua							
- on 7 August 2009	2,000,000	-	-	-	2,000,000	1.170	07/08/2009 to 06/08/2014
- on 12 October 2009	1,800,000	-	-	-	1,800,000	1.680	12/10/2009 to 11/10/2014
	3,800,000	-	-	-	3,800,000		
sub-total	41,050,000	-	(19,600,000)	-	21,450,000		

	At beginning of period	Granted during the period	Exercised during the period	Cancelled during the period	At end of period	Exercise price HK\$	Exercise period
<b>Options granted to independent non-executive directors</b>							
Loke Yu, (Alias Loke Hoi Lam)							
- on 26 March 2007	605,000	-	(605,000)	-	-	1.830	26/03/2007 to 25/03/2010
sub-total	605,000	-	(605,000)	-	-		
<b>Options granted to employees/others</b>							
on 26 March 2007	65,740,000	-	(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	5,600,000	-	(2,000,000)	-	3,600,000	0.100	31/10/2008 to 31/10/2011
on 1 April 2009	5,000,000	-	-	-	5,000,000	0.153	01/04/2009 to 31/03/2012
on 7 August 2009	19,000,000	-	(12,196,000)	-	6,804,000	1.170	07/08/2009 to 06/08/2014
on 12 October 2009	14,850,000	-	(3,946,000)	-	10,904,000	1.680	12/10/2009 to 11/10/2014
sub-total	110,690,000	-	(83,882,000)	-	26,808,000		
Total share options	152,345,000	-	(104,087,000)	-	48,258,000		

## CODE ON CORPORATE GOVERNANCE PRACTICES

Save for the deviation as reported and discussed in the Corporate Governance Report as contained in the Company's 2009 Annual Report, none of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the period for the six months ended 30 June 2010, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-Laws of the Company.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules during the period for the six months ended 30 June 2010. Having made specific enquiry of all directors, each of them has confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by the directors.

## **REVIEW BY AUDIT COMMITTEE**

The Group's interim financial report for the six months ended 30 June 2010 has been reviewed by the audit committee which comprises three independent non-executive directors of the Company.

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

Saved as disclosed in note 13 to the financial statements, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2010.

By Order of the Board  
**ZHANG Lijun**  
*Chairman*

Hong Kong, 30 August 2010