第1视频

VODONE

VODONE LIMITED

(Incorporated in Bermuda with limited liability)

Stock code: 82

2010 Annual Report

Corporate Profile

VODone is principally engaged in 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 2010

January

VODone's first single match game lottery shop in Guangzhou commenced in operation

May

Linfo which was jointly developed and operated by VODone and France Telecom of Beijing Research Centre commenced in operation

July

VODone rebranded its news portal as www.v1.cn

VODone acquired Heilongjiang Welfare paperless lottery platform

September

MOBUS was officially launched

VODone acquired 70% of OWX Group, a mobile handset design house at RMB 78.4 million

VODone becomes a Hang Seng Composite Index constituent

October

www.v1tuan.com was one of the first batches of group buying websites which was granted the credit certification

November

VODone acquired www.zgzcw.com (中國足彩網) and www.betrich.com (彩富網) at RMB 100 million

December

www.v1.cn ranked global Top 500 in Alexa

"Line 0 of Metro (地鐵0號線)" was officially and globally launched

VODone acquired 70% of 3GUU, the mobile games developer for smart phones at RMB 196 million

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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

Auditor

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

16-18/F, Tower 1
Recero International Centre
No 8, Wang Jing East Road
Chao Yang District
Beijing, PRC 100102

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

Websites and E-mail Addresses

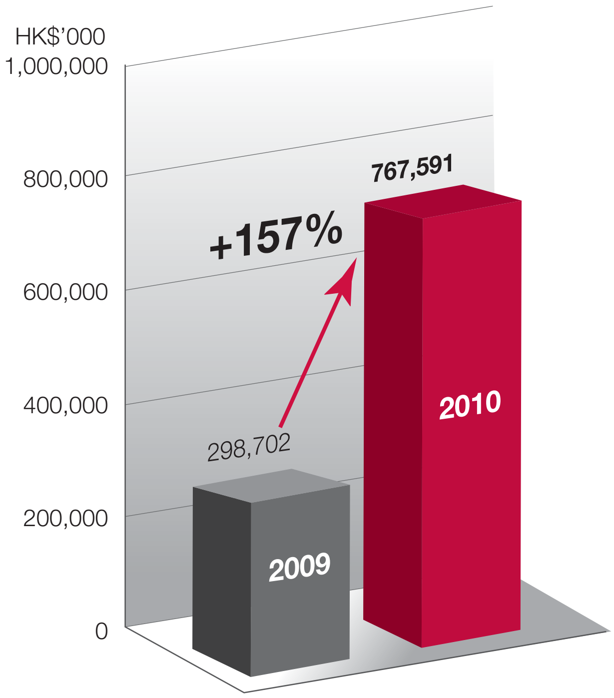
http://www.v1.cn, http://ir.vodone.com
info@vodone.com.hk, ir@vodone.com

Stock Code

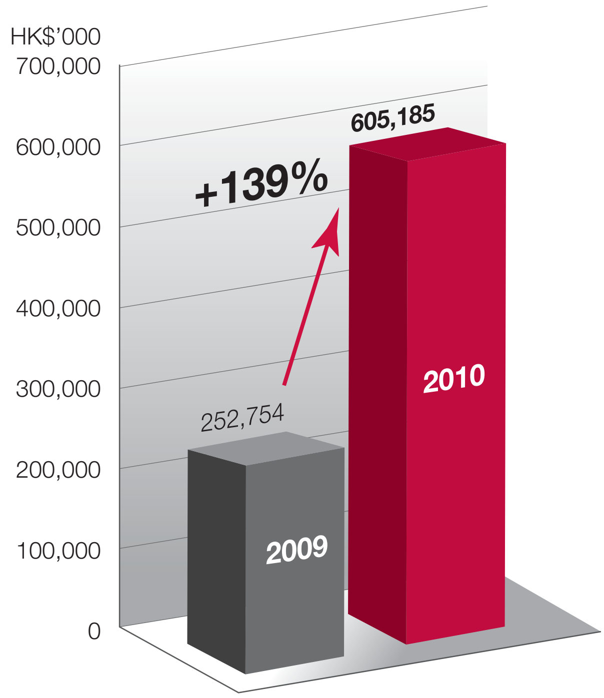
00082

Financial Highlights of the Year 2010

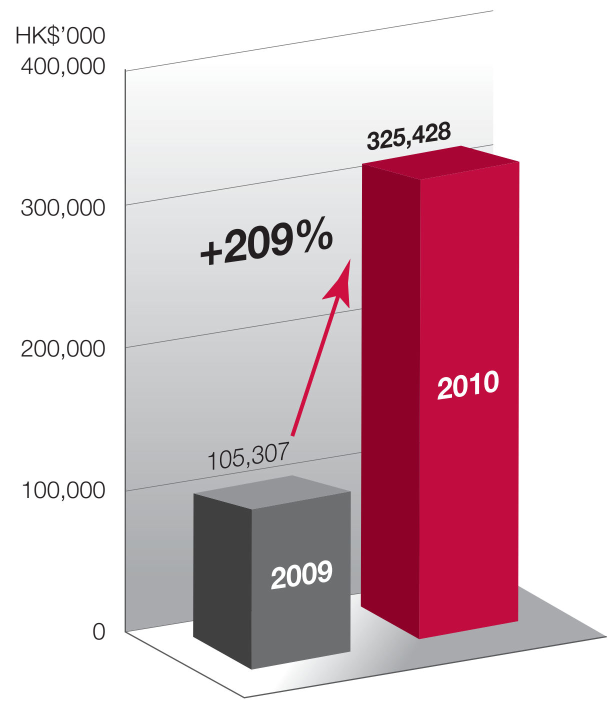
Revenue



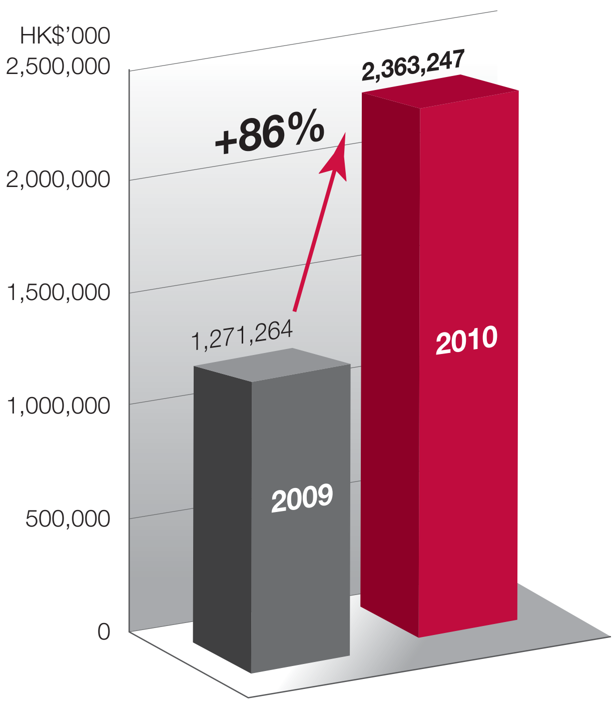
Gross Profit



Profit attributable to Owners of the Company



Total Assets



Chairman's Statement

「二零一零　第一視頻　最給力！」

Dr. Zhang Lijun
(Chairman)

It is time for us to review and look forward. Tracing VODone's milestones in 2010, we can see how rapid and solid our development was.

First of all, the lottery business of VODone has already stepped into a fast-growing stage. In early 2010, our first sports lottery shop in Guangzhou has commenced operation. About 40 million mobile handsets were pre-installed with the mobile lottery application by the end of the year. During the year, we were named the "Excellence Selling Organizations" by the Sports Lottery Management Center of the General Administration of Sport of China.

Since the promulgation of "Regulations for the Administration of Sales of Lottery via Internet" by the Ministry of Finance in October 2010, VODone Lottery View has been the leading player in the mobile lottery business, together with the newly acquired www.zgzcw.com (中國足彩網) and www.betrich.com (彩富網), and has formed a stronger management and operation team. Our former VODone Lottery View (www.caishijie.com), after successful integration with www.zgzcw.com (中國足彩網) and www.betrich.com (彩富網), was formally renamed as www.diyicai.com (「第一彩」) on 22 March 2011. In the meantime, we made the grand debut of "Lottery Buyers on Weibo" (「彩民微博」), which was unprecedented in China and gained the recognition of the China Sports as well as Welfare Lottery Administration Bureau as well as massive focus and support from the industry and lottery buyers. The well-received "Lottery Buyers on Weibo" has underpinned the rapid development of the lottery business. In light of this, the lottery business of VODone is expected to be the most attractive and exciting hallmark over the market in 2011.

Secondly, the general positioning of the mobile games business has achieved significant efficiency. Following the first acquisition of the mobile games company Dragon Joyce at the end of 2009, VODone has, in 2010, completed the acquisition of 3GUU – a leading mobile games developer for smart phones and OWX (一高公司) — a mobile handset design house, forming in a full range production chain, offering game design and operation and game built-in, in mobile games for smart phones and non-smart mobile handsets; and in January 2011, VODone established the largest China mobile game operator "China Mobile Games and Entertainment Group". It is expected that the global mobile phone users will exceed 5.6 billion in 2011, among which 3.8 billion from the developing countries and the mobile phone users in Chinese will exceed 1 billion. Riding on this promising trend, the China Mobile Games and Entertainment Group of VODone, will seize the opportunities for business integration; use its own intellectual property right to develop and launch various single-brand mobile game products. In addition, the Company will not only actively expand mobile game market in China, but also explore the overseas market, in order to capture the greatest market share supported by large number of subscribers and strives to continue to be the largest operator in China mobile game market.

Chairman's Statement

In addition, momentous breakthrough was also achieved in the tele-media business by VODone. With the unprecedented opportunities arising from the rapid growth of e-advertisement and the swift expansion of e-commerce in China, on 13 July 2010, VODone introduced the news portal — www.v1.cn, a new domain and a news portal. In pursuance of our mission, "conveying people's opinion, marking it as government policy references", we focused our effort in developing a news portal. Targeting to bring together high-level inspiration and with unique competitiveness, we drew attention and gained support from various advertising agencies and clients. Meanwhile, we actively explored the e-commerce business model, including "group buying" (www.v1tuan.com). We aim to maintain a steady profit growth through the introduction of a new channel, and develop a healthy and flourishing platform for VODone's various businesses units. As at 1 January 2011, the news portal of VODone was ranked 338th among global news portals and being the third largest news commentary portal in China following www.xinhuanet.com and www.people.com.cn.

Linfo, a location based service (LBS) mobile community, has started from scratch and progressed to be the largest LBS mobile community in China with 4 million registered users within 6-month period. In early 2011, after restructured by VODone, Linfo strives to become a successful mobile community operator. Apart from it, Linfo will develop into a massive and effective platform, joining with other business units of VODone to explore the business opportunities in mobile internet market.

All of these efforts proved that VODone had seized every opportunity, made aggressive steps with great endeavors, and successfully adopted the strategic position as the largest new media enterprise under the speedy economic development of China. We hereby summarize this positioning as, "a platform with 3 highlights", representing 3 principal business modes, namely the advertising profit mode through the news website of VODone and its BUS on internet basis, the e-commerce profit modes of mobile games and mobile lottery on the basis of mobile internet, and the mobile community with location based service (LBS). Internally, strong synergy effect is increasingly realized among these three modes.

We are pleased to inform all the shareholders that, with the above development strategies, VODone achieved very remarkable results in 2010. The segment profits from our tele-media business, lottery related services and mobile game business recorded an increase of 123%, 185% and 460% respectively as compared to the previous year. The total profit after tax of the overall business of the Group attained an increase of 218% for the year 2010 as compared to the previous year.

The significant growth of profit from 2009 to 2010 has marked the stability, soundness, and development of various businesses lines of VODone. Further, while the China market is constantly expanding, we firmly believe that we will be benefited from the opportunities brought by the Triple Networks Convergence and continue to secure stable and rapid growth in 2011.

Overall, we can conclude the performance of VODone with the most fashionable internet slang, "VODone in 2010, the most Ogelivable' (simply the best)!"

VODone Limited
Zhang Lijun
Chairman

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 VODone Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2010.

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 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 109.

Segment Information

The segment information of the Group for the year ended 31 December 2010 is set out in note 6 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 110. 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 27 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.

Directors' Report

Purchase, Redemption or Sale of Listed Securities of the Company

Save as disclosed in notes 27 and 34 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 40 to the financial statements.

Distributable Reserves

At 31 December 2010, the Company's reserves available for distribution were approximately HK$505,000,000 (2009: Nil). The Company's share premium account in the amount of HK$771,111,000 (2009: HK$1,361,496,000) 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 14%
- the five largest suppliers 62%

(b) Percentage of sales attributable to:

- the largest customer 60%
- the five largest customers 76%

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	
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, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Dr. Zhang Lijun, Ms. Wang Chun and Mr. Wang Zhichen will retire by rotation at the forthcoming annual general meeting of the Company and are eligible to offer themselves for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them to be independent.

Directors' Report

Biographical Details of the Directors of the Company and Senior Management of the Group

Executive Directors

Chairman

Dr. ZHANG Lijun, aged 48, 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, Council Member of the Association for Relations Across the Taiwan Straits (ARATS), 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 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 46, 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.

Directors' Report

Mr. SIN, Hendrick, aged 36, was appointed as an executive director and Chief Financial Officer in early 2009. 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 Economic Systems and Operations Research. He also holds three Bachelor of Science degrees in Computer Science/Mathematics, Economics and Industrial Management (with college honors) from Carnegie Mellon University. Mr. Sin is a member of The Hong Kong Institute of Directors.

Mr. LI Xiaohua, aged 37, 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.

Independent non-executive directors

Dr. LOKE Yu (alias LOKE Hoi Lam), aged 62, 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 36 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.

Directors' Report

Mr. WANG Zhichen, aged 69, 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.

Mr. WANG Linan, aged 62, 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 and has more than 15 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

Mr. LI Hai, aged 27, Head of Corporate Finance and Investors Relations, accumulates years of experience in the capital market of Hong Kong and has been focusing on fund raising and listing activities of Privately Owned Enterprises in Mainland China as well as researching and promoting these companies. Prior to joining the Company in December 2010, he was a director of the Research Department of Celestial Securities Limited. He has obtained a bachelor degree in engineering and a master degree in business administration.

Mr. WANG Yufei, aged 39, has over 13 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.

Directors' Report

Mr. YANG Shuojin, aged 31, Chief News Editor and Director of Internet Portal 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 the chief editor and senior group vice president at xilu.com with Legend Group and 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 43, is the Financial Controller of the Company. He has over 18 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 companies listed on the main board of the Stock Exchange of Hong Kong.

Ms. WANG Xiang, aged 36, 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 32, 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. YAN Man Sing, Frankie, aged 53, the Company Secretary, is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yan joined the Company in late 2007.

Directors' Service Contracts

None of the directors who are proposed for re-election at the forth coming annual general meeting has entered into any service contract, which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

Directors' Interests and Short Position in Shares and Underlying Shares of the Company

As at 31 December 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:

Name of director	Capacity	Number of ordinary shares held	% of total issued share capital
Zhang Lijun	Beneficial owner/ Interest of spouse	336,867,376 (Note 1)	14.04%
Wang Chun	Beneficial owner/ Interest of spouse	336,867,376 (Note 2)	14.04%
Sin, Hendrick	Beneficial owner	19,500,000	0.81%
Wang Linan	Beneficial owner	1,000,000	0.04%
Wang Zhichen	Beneficial owner	1,000,000	0.04%

Note 1: Of these 336,867,376 shares, 322,367,376 shares are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 14,500,000 shares through the interest of his spouse, Ms. Wang Chun.

Note 2: Of these 336,867,376 shares, 14,500,000 shares are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 332,367,376 shares through the interest of her spouse, Dr. Zhang Lijun.

Directors' Report

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

Name of director	Capacity	Number of underlying shares in respect of the share option granted (Note 1)	% of total issued share capital
Zhang Lijun	Beneficial owner/ Interest of spouse	4,600,000 (Note 2)	0.19%
Wang Chun	Beneficial owner/ Interest of spouse	4,600,000 (Note 3)	0.19%
Sin, Hendrick	Beneficial owner	20,650,000	0.86%
Li Xiaohua	Beneficial owner	5,800,000	0.24%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	300,000	0.01%
Wang Linan	Beneficial owner	300,000	0.01%
Wang Zhichen	Beneficial owner	300,000	0.01%

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 4,600,000 share options, 2,300,000 share options are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 2,300,000 share options through the interest of his spouse, Ms. Wang Chun.

Note 3: Of these 4,600,000 share options, 2,300,000 share options are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 2,300,000 share options through the interest of her spouse, Dr. Zhang Lijun.

Save as disclosed herein, as at 31 December 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.

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.

Details of the share options granted by the Company during the year ended 31 December 2010 are set out in note 34 to the financial statements.

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 2010, 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
Keywise Capital Management (HK) Limited	Corporate interest	Long position	130,758,000	5.45%

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, where applicable.

Directors' Report

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 2010 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.

Auditor

The financial statements have been audited by BDO Limited.

On behalf of the Board

Zhang Lijun
Chairman

Hong Kong
29 March 2011

Corporate Governance Report

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 2010.

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 2010, 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, 2010, the Board comprises seven members (31 December 2009 – seven 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.

Corporate Governance Report

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.

Corporate Governance Report

Attendance of Directors at Board and Committee Meetings

During the year, the Board had held 7 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	7/7	n/a	1/1	1/1
Wang Chun	7/7	n/a	1/1	1/1
Sin, Hendrick	7/7	n/a	n/a	n/a
Li Xiaohua (1)	6/6	n/a	n/a	n/a
Yue Hong Chu, George (2)	1/1	n/a	n/a	n/a
Independent Non-executive Directors				
Loke Yu alias Loke Hoi Lam	7/7	2/2	1/1	1/1
Wang Linan	7/7	2/2	1/1	1/1
Wang Zhichen	7/7	2/2	1/1	1/1

Notes:

(1) Appointed on 7 April 2010

(2) Resigned on 7 April 2010

Independent Non-executive Directors

The Company believes that the Independent Non-executive Directors 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.

Corporate Governance Report

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. The composition and biographical details of the members of the Audit Committee, are detailed in 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 2010 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	$972,000
Non-audit services:	Nil

Corporate Governance Report

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.

Corporate Governance Report

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.

Management Discussion and Analysis

Operating results

Turnover of the Group was HK$767,591,000, an increase of 157% when compared to last year of HK$298,702,000. The growth of the results of the Group was attributable to the overall improved performance of the businesses of the Group, in particular, the substantial increase in the contributions from new businesses in 2010 including lottery related business and mobile game business, which were launched in 2009.

Operation Review

VODone focused mainly on the development of the tele-media, lottery related and mobile games businesses in 2010.

Tele-media Business

As the leading mini-video news website in China

2010 was the "breakthrough year" for the tele-media business of VODone. The news portal of VODone, www.v1.cn, ranked as 496th among the Top 500 Alexa Ranking on 23 December 2010; and bounced up to 338th on 1 January 2011. According to the information of www.iresearch.cn, the news portal of VODone became the third major news portal of China following www.xinhuanet.com (新華網) and www.people.com.cn (人民網). VODone was positioned as "mini-video news portal" and instantly we were proud to be the largest one in China.

In July 2010, VODone adopted its new domain name, www.v1.cn, and was transformed into a mini-video news portal. The newly launched mini-video news portal of VODone created its own 16-hour live internet mini-video programs and 19.5-hour live mobile internet radio programs. With those parallel production lines of full day live video and audio programs, news could be timely broadcasted. All those in-house programs were hosted by contracted celebrities, and the audiences were able to participate in the programs and put forward their comments. That would develop an internet-based audio and video platform with an exclusive brand image in conferring more impressive and incisive commentary interactively with the stars group. Compared with other mini-video portals of which all videos are traditionally crude and uploaded by netizens, VODone's mini-video portal produced live programs which are more multitudinous, authoritative, interactive and service-oriented.

Management Discussion and Analysis

VODone Broadcasting Union System ("BUS") — The largest and strongest mobile internet advertising platform in China

In September 2010, VODone Bus, a product of VODone, the largest mobile internet video advertising platform in China, was officially upgraded as the V1 Bus (第一聯播網). It comprises of two major products: VBUS and MOBUS. VBUS offers traditional internet advertising business, while MOBUS engages in the emerging mobile internet advertising business. After trial run for a year, MOBUS and V1.cn were officially launched. MOBUS integrates the substantial volume of traffic flow in respect of mobile application and WAP, and makes recommendation to advertisers for media placement in product branding. With the tremendous support of advanced technology, that platform develops a full advertising coverage of the smart mobile handsets, enhances the preciseness of the advertisement placement, and creates intensive interaction between advertisers and clients. Additionally, it also provides the advertisers with various alternatives in advertising format and highly effective and quality mobile network services. Currently, with approximately 10 million mobile handset clients and approximately 20 million mobile internet advertising space, MOBUS has recorded approximately 100 million of quality and stable traffic flow daily. It becomes the largest and strongest mobile internet advertising platform in China. MOBUS and VBUS will be sold in bundle to advertising clients. The integration of internet advertising and advertising on mobile handsets, and the integration of sales in bundle which leverages on the abundant resources of the subordinate advertising agency strengthened our competitiveness and provided a multi-platform advertising services for clients.

V1 Bus has not only enhanced the structure of network platform, but also allowed a full advertising coverage of both PC and mobile handsets, resulting in a greater synergy among traffic flow, advertising products and hence clients, and a boosting profitability of the Group. The advertising packages of V1 Bus was expanded to cover embedded advertisements and calls advertising on the basis of internet advertising. V1 Bus's operational model was transformed to integrate the quality resources of the Group's sales agency and became an integrated agency, which directly reduced the cost and increased revenues. V1 Bus is a key driver of the Group's advertising revenues.

Group buying website successfully obtained the credit certification from the Ministry of Commerce

In 2010, VODone's group buying website, www.v1tuan.com, was officially launched. It was recognized by the China International Electronic Commerce Centre under the Ministry of Commerce in terms of its credit and integrity. Only 20 out of the 300 applications of group buying websites were granted the credit certificates and www.v1tuan.com was honored to be one of them. The certification and rating were the recognition for creditability and ranking standard for the group buying business, which was the first official credit rating from the third party for buying websites in China. In pursuing its operating principle, "open, synergic and prosperous" and the mission "providing the best quality products under a reasonable price and delivery in efficient and convenient ways", www.v1tuan.com became a well-known group buying website in China. On 29 October 2010, the Ministry of Commerce of the People's Republic of China officially published "The Regulations on the E-Commerce Credit Certification《電子商務信用認證規則》and www.v1tuan.com was one of the first batches of group buying websites which granted the credit certification. On 10 December 2010, www.v1tuan.com participated in the "The First Group Buying Summit in China (中國首屆團購峰會)" and was awarded "The China High Growth Group Buying Website 2010 (2010中國高成長團購網站)".

Management Discussion and Analysis

"Line 0 of Metro (地鐵0號線)" was officially and globally launched

On 8 December 2010, VODone — the mini-video news portal of China, organized a grand media conference in Beijing, and announced that the "Line 0 of Metro (地鐵0號線)" was officially and globally launched. That indicated the passengers would enjoy an exclusive experience in the metro with a brand-new interactive platform, attained refreshing mood and enriched experience, and relieved their bore in the metro journey. Further, it also represented that VODone — the best quality and state-owned new media enterprise for internet video sector, successfully activated its first global "metro line". On 22 December, "Line 0 of Metro" of VODone was awarded the "Best Mobile Telecom Innovative Products Awards of China in 2010 (2010中國手機產業最佳手機電台產品創新獎)" by the "Mobile Industry Congress of China 2010 (2010中國手機產業發展大會)".

"Line 0 of Metro Web Radio" was invited by the World Summit Award 2011 (世界資訊峰會大獎) - Nomination of China to represent China to compete under the "Electronic Entertainment and Games (電子娛樂與遊戲)" group in the "2011 World Information Summit Championship" organized by the Union Nations.

Looking forward to 2011, VODone will strengthen its collaboration with the televisions, radio stations, plain media, outdoor media and other internet media. The integration of advertising resources will account for satisfying various needs of customers continuously. The tremendous platform is now emerging for the cross-media broadcasting business. It will further act as a solid foundation, in terms of the business model, to become the largest mini-video news websites in China.

Lottery Related Business

Lottery Players Blog Boosted the Lottery Business with a Combination of New Media, Community and Lottery Concepts

VODone lottery business was the first one, through the advanced new media platform and technology, and capitalising on the powerful community function of SNS, to combine "New Media", "Community" and "Lottery" concepts, and launching the most wonderful, outstanding, convenient and effective new media services for lottery players. The newly launched lottery blogging service pioneered the vertically operated lottery players blog in China. Several regional and municipal Sports Lottery Management Centers and Welfare Lottery Centers launched the service and hosted by domestic celebrities such as Huang Jianxiang (黃健翔), Zhang Lu (張路), Hai Qing (海青) and Huang Haibo (黃海波). It was well-received by lottery players and became the lottery platform for the 200 million lottery players in China to share their view on football games.

Management Discussion and Analysis

Greater Variety of Lottery Categories and Products to facilitate internet-based live betting service

In 2010, VODone Lottery View mainly engaged in the businesses of providing lottery information, offering mobile lottery betting and operating lottery shops. The 24-hour professional and comprehensive services along with simple and efficient platform laid down the concrete foundation of the betting business. Our services covered most of the welfare and sports lotteries in China, which included sport lotteries: Chaoji Daletou (超級大樂透), Qixingcai (七星彩) and Pailiesan (排列3); welfare lotteries: dual-colored ball, Qilecai (七樂彩) and Fucai 3D (福彩3D); single match game betting: football bet, basketball bet, football single match bet and Shengfurenjiu (勝負任九) and high frequency lotteries: PK 10, Constant Lottery (時時彩), Happy 8 (快樂8) and 5 out of 11 (11選5). VODone has become the largest lottery betting service provider by offering the biggest varieties in lotteries, developing simple and efficient platform and providing professional and comprehensive services.

In cooperation with the Beijing Welfare Lottery Center, VODone Lottery View firstly instigated an internet-based live video program to broadcast the lottery results of Two Steps (兩步彩). It facilitates the transparency and openness of lottery industry in China and promoted the effective supervision and proper enforcement of the lottery operation.

Improved Channel for Lottery Sales

In 2010, Lottery View broadened the business network and burgeoned its distribution channel by collaborating with major mobile software manufacturers, branded mobile manufacturers and mobile terminal operators, namely Longcheer (龍旗), Cmedia (台灣驊訊), Hangzhou SKY-MOBI (杭州斯凱), Nokia (諾基亞), Lenovo-Mobile (聯想移動), K-touch (天宇朗通), Vogins Technology (沃勤科技), Konka (康佳), China Unicom wo114116 and the mobile payment platform of China Mobile. The lottery betting system and related software of Lottery View were pre-installed into the application system of the mobile phones. Besides, VODone successfully established accessing the banking sector and formed alliance with major financial institutions such as China Minsheng Bank, China Construction Bank and The Bank of Communications. Now, the lottery business has developed into a systematic production chain and Lottery View becomes the most credible, influential and professional vertical lottery platform for lottery buyers in China. Moreover, the numerous users of Lottery View also attracted the attention and approbation from advertisers.

As "triple integration" had come to a more advance stage in China, VODone Lottery View developed a long-term and solid strategic relationship with China Digital TV (永新視博), Sumavision (數碼視訊), Beijing TV Media (京視傳媒), China Television and CTV — Ho Yong (中視和陽) and jointly developed the IPTV market of the lottery business of China. Cooperation with branded manufacturers, such as Konka (康佳), Changhong (長虹) and Haier (海爾), have been steadily progressing, which heralded a new era for "triple integration" of the lottery business in China, and provided the lottery players with more convenient lottery betting service.

In July 2010, VODone acquired the Heilongjiang Welfare paperless lottery platform with a consideration of HK$12,463,000. The paperless lottery platform of Heilongjiang Welfare Lottery Center has its exclusive strength in technology. The lottery sales system was self-developed and approved by the Ministry of Civil Affairs of the PRC and the China Welfare Lottery Management Centre. The paperless lottery platform of Heilongjiang Welfare Lottery Centre was under the unified management and directly interfaced with the lottery sales system. Moreover, it was granted the technology authentication from the Ministry of Finance of the PRC and the China Welfare Lottery Management Centre. The paperless platform provided lottery buyers with an extremely safe, strictly secured, user friendly and speedy self service transaction experience. Furthermore, the transaction process fully utilized the advantages of the modern communication technology and it was completed by the pre-devised automatic system without any human interferences.

Management Discussion and Analysis

In November 2010, VODone spent RMB100,000,000 on acquiring two websites which were operated by Beijing Pinzheng, namely www.zgzcw.com (中國足彩網) and www.betrich.com (彩富網). In China, www.zgzcw.com (中國足彩網) was principally engaged in providing worldwide football lottery information in Chinese. It was the first website which provided lottery information on worldwide football events in China. Likewise, it launched for almost 10 years and built up good reputation in lottery industry. It conveyed comprehensive and real time events information about football games in over 50 countries worldwide. When users typed the keyword "足彩" (meaning "football lottery" in Chinese) in numerous search engines, www.zgzcw.com (中國足彩網) was usually in high ranking in the priority list, for instance, it ranked no.1 in both Baidu and Google. www.betrich.com (彩富網) is engaged in offering the lottery support services in China. www.zgzcw.com and www.betrich.com had elite teams with 10 years of experience in managing lottery websites. We strongly believe that their presence would reinforce VODone Lottery View, and boosted the Group lottery business to scale new heights.

Recognized Reputation of Lottery Platform

With absolute market competitiveness, VODone Lottery View was awarded the "Outstanding Enterprises for Protection of Consumers' Rights on Online Transactions 2010" organized by www.315online.com.cn (網上交易保障中心) and sponsored by the Policy and Law Committee of China Electronic Commerce Association and www.chinaeclaw.com (中國電子商務法律網). Lottery View received not only recognition from lottery buyers but also authentication from officials in its branding and professionalism. In 2010, VODone was complimented as the "Outstanding Selling Organizations" by the Sports Lottery Management of the General Administration of Sport of China.

In October 2010, the Ministry of Finance of the PRC issued the "Interim Measures for the Administration of Internet Lottery Sales" and "Interim Measures for the Administration of Telephone Lottery Sales", which directed and ascertained the development of the paperless lottery in China. VODone Lottery View achieved rapid development under the Government policies and the leadership and support from Lottery Administration Centers. 2010 was a fruitful year for the lottery industry in China. The total annual sales of lottery in China for 2010 amounted to RMB166.2 billion, representing an increase of RMB33 billion or 25% when compared to that of 2009. The annual sales of sports lottery and welfare lottery amounted to RMB69.4 billion and over RMB96 billion respectively in 2010. As of December 2010, more than 15 million users registered with VODone Lottery View and more than 40 million mobile phones handsets installed the mobile lottery service. We are well prepared for remarkable results in 2011!

Management Discussion and Analysis

Mobile Game Business

Mobile Games

With the development of 3G technology, mobile internet becomes a new focus. In addition, mobile games which applies through the mobile internet presents a rapid growth. In response to the market trend and to seize the business opportunities, VODone successfully completed the merger and acquisition of 3GUU and OWX in the second half of 2010. Thus, VODone has established its position in mobile game industry equipped with a complete production chain, i.e. the development and operation of smart phones or non-smart phones mobile games, pre-installed mobile games and a reliable payment gateway. Moreover, KKFun joined VODone in 2009, and making significant breakthrough in 2010 as well as achieving all around enhancement in mobile games design, channels, branding and team building.

Great variety of mobile games in terms of content and category

In 2010, along with the regular enhancement on technology and strength, KKFun underwent enrichment in terms of talents, channels and resources in order to enrich and to expand the product lines. Furthermore, KKFun strengthened and enhanced the category, quantity and quality of stand-alone mobile games. It also launched 30 new stand-alone mobile games in 2010, and it presently had over 100 self-developed stand-alone mobile games. Apart from that, KKFun upgraded the mobile game platform and advanced the interconnection technology of mobile game continuously. In December 2009, KKFun embarked on a mobile game downloading platform, named “FUNBOX” which carried the mobile games with own independent intellectual rights and brand name. In 2010, the Company focused on the development of “Douwan”, an online casual fighting game platform which provided various types of real-time fighting games. The release of “Douwan” represented the entrance of KKFun in the mobile online games market. The platform received good market response and the registered users reached 500,000 in two months after the service commenced.

2010 was the “Year of Branded Games” for KKFun. It closely collaborated with well-known branding institutions and enterprises in overseas and China and a number of international well known branding games were launched and received high recognition in China and abroad. Among which, the officially licensed image series stand-alone and on-line games featuring “Hai Bao”, the mascot of Expo 2010 Shanghai China. “Hai Bao” series mobile game were launched on the same date as Expo 2010 Shanghai China opening ceremony. The cooperation greatly enhanced the popularity of the gaming brand of KKFun. In 2010, KKFun obtained the image license Iron Man from MARVEL of the U.S.A., and the image license of movies from “Orange Sky Golden Harvest”. According to the licensing agreements, KKFun developed the mobile gaming series — “Iron Man” and “God of Gamblers”. The image icons enhanced the popularity of the product.

In 2010, the development of smart mobile phones in China and overseas was overwhelming, and ANDROID represented the fastest development in smart mobile phones operating system. KKFun believed that ANDROID would be the most popular operating system in China-brand smart mobile phones. Therefore, KKFun launched a series of ANDROID mobile games in mid-2010 to capture the new business opportunities of ANDROID smart phones.

Management Discussion and Analysis

CDMA mobile phones terminal market of China Telecom developed rapidly in 2010. Given the established resources strengths with numerous mobile manufacturers and solution providers, KKFun formally stepped into the mobile gaming market backed by the Brew platform of China Telecom and successfully launched a number of mobile gaming products embedded with Brew platform at the end of the year.

Established channels consolidation

The number of strategic partners of KKFun, including the mobile manufacturers and the solution providers such as Lenovo (聯想), Simcom (希姆通), Gionee (金立), GameCyber (天宇) and Bird (波導), increased from around 300 in 2009 to over 500 in 2010. The strategic alliances further consolidated the terminal edge of the build-in channel.

Due to the increasing number of game products and supported operation systems of mobile phones, KKFun attempted to explore new promotion channels for mobile game in 2010. KKFun achieved a significant progress in domestic and international operators and well-renowned application stores. It started cooperating with domestic mobile operators for installing build-in games in mobile phones. Presently, KKFun is the largest build-in game partner of China Mobile – Ophone. Through the cooperation with the top three domestic mobile operators, Google and the mainstream application stores launched by well-known mobile phones terminal manufacturers, KKFun acquired higher brand awareness and was recognized by greater number of users.

Accelerating overseas expansion

The continuous economic growth in global market and the increasing export volume in China-made mobile phones, KKFun began to accelerate overseas expansion proactively. Pursuant to the motto, “Global Strategy of Mobile Game for KKFun GLOBAL” which was formulated in the beginning of 2010, KKFun developed a good relationship with various telecom operators in the region of East Asia, Southeastern Asia, Europe, Latin America and Africa, and the products were marketed for Thailand, India, Russia, etc. Thereupon, the overseas operational income would become the drive of future income growth in the future.

The joining of 3GUU completes the mobile game business chain

3GUU is the market leader which principally engages in the development and the operation of smart phone mobile game business. VODone acquired 70% of interest in 3GUU in December 2010 with a total consideration of RMB196 million. The collaboration of 3GUU enhanced the market competitive edge of VODone in smart phone mobile game business and also complemented the non-smart phone mobile game of KKFun. In September 2010, VODone acquired and established OWX, a mobile handset design house, with a consideration of RMB78.4 million. It offered full production chain functions – game design and operation and game built-in, in mobile game for smart and non-smart mobile handsets. Thus, VODone has established a leading position in the game business industry. Currently, KKFun and 3GUU together have over 10 million monthly paid subscribers.

Management Discussion and Analysis

The Operational Qualifications of 3GUU/Yinzhen (盈正)

- The first mobile game corporation to receive the Internet Publication Permit from the General Administration of Press and Publication;
- One of the first mobile game corporations to receive the Network Culture Operations Licences from the Ministry of Culture;
- The first mobile game corporation in Guangzhou to receive the government financial subsidy in specialty development in 2009;
- One of the first strategic partners of China Mobile in operating mobile games;
- One of the first 15 strategic partners working with China Mobile in game business;
- One of the first high quality developers (content provider) of mobile gaming working with China Mobile's 'Game Zone';
- Licensed A-type gaming partner of China Mobile in the 2010 World Expo;
- The mobile game designated district partner of China Mobile in the 2010 Asian Games;
- The mobile game company which operates the largest number of supporting operational points across the provinces and counties in a given district in the PRC;
- The first mobile game company to innovate the development of operating mobile game platforms in the PRC;
- It has received many awards of the industry in recent years:—

Management Discussion and Analysis

Year	Awarded Product/Unit	Name of Award	Grantor
2010	"The Creation Song" (《創世神曲》)	Golden Phoenix Award Top 10 Most popular original mobile game	General Administration of Press and Publication, Ministry of Industry and Information Technology and Publishers Association of China
2010	"Thumb Monopoly" (《拇指大富翁》)	2009 Golden Phoenix Award Top 10 Most popular original mobile game	General Administration of Press and Publication, Ministry of Industry and Information Technology and Publishers Association of China
2010	"Civilization II" (《文明II》)	2009 Golden Phoenix Award Top 10 Most popular original mobile game	General Administration of Press and Publication, Ministry of Industry and Information Technology and Publishers Association of China
2009	"Devil's Attack" (《惡靈來襲》)	Golden Plume Annual Best single player mobile game	Steering Committee for International Digital Interactive Entertaining Product and Technological Application in China
2009	"YY Three Kingdoms" (《YY三國》)	2008 Golden Phoenix Award Top 10 Most popular original mobile game	General Administration of Press and Publication, Ministry of Industry and Information Technology and Publishers Association of China
2008	"Civilization online" (《文明online》)	Jin Yu Players' most anticipated mobile game	2008 Mobile Game Summit Forum
2008	"Far seas online" (《遠洋online》)	Golden Plume Best mobile social game	Steering Committee for International Digital Interactive Entertaining Product and Technological Application in China
2008	"Far seas online" (《遠洋online》)	Best internet game	The 3rd assessment for national best mobile application software and mobile game (Beijing software industry base common technological support system)
2008	"Far seas online" (《遠洋online》)	Best strategic game	The 3rd assessment for national best mobile application software and mobile game (Beijing software industry base common technological support system)
2007	Yinzhen (盈正)	Golden Plume Annual Best mobile game developer	Steering Committee for International Digital Interactive Entertaining Product and Technological Application in China
2007	Mobile Network Games (MNG) supporting platform	Outstanding Promotion Award for Mobile Network Gaming Business in China	2007 Development strategy summit forum for value-added mobile market in China
2007	Mobile Network Games (MNG) supporting platform	Outstanding Performance Award for Mobile Network Gaming Business in China	The 5th Expo for international network culture in China
2007	Mobile Network Games (MNG) supporting platform	2007 Corporate Award for Outstanding Network Culture in China	The 5th Expo for international network culture in China
2007	"Fantasy Garden" (《夢幻莊園》)	Best Enrichment and Leisure Game	2007 Major Assessment for Mobile Application Theme

Management Discussion and Analysis

Prospect

Capitalizing on the significant development of mobile internet in 2010, mobile internet has developed a broad customer base and an established business model in terms of mobile game as one of the typical application of entertainment. VODone's mobile game business gained the first mover advantages in its products, terminal coverage, subscribers, income, profit and relevant operational licenses in the early stage of development of mobile internet. We believe that we are ready to capture more opportunities for further development in the future.

The Business of Linfo

LBS-SNS Offers the New Trend of Income Sources of Mobile Terminals

Social networks become highly popular and developed strong market demand among Chinese netizens with a wider customer base. Leveraged on the popularity of smart phones, mobile social networks and mobile SNS have become feasible and popular. Traditional SNS websites only offer two dimensions in terms of users' time sequence and behavioral patterns; however, the availability of LBS offers a new possibility to traditional SNS: grouping up people by geographical locations and forming a new mobile social network.

Linfo fully utilized the powerful function of location based service, enables the users to locate various living facilities in vicinity, such as roads, buildings, restaurants, hotels, etc and accessed the friends nearby at their convenience. Users not only enjoyed the prestige and excitement in the virtual reality, but also gained the convenience of actual interpersonal communication, entertainment, meal, transportation, etc. Although the LBS-SNS mode is still at its infant stage of development in China, 1 billion mobile phone users imply unlimited business opportunities ahead. The mobile map location survey service of Linfo served as a huge potential the advertising market of mobile terminals of China, and share magnificent profits to be brought by the similar market of China's new media.

Linfo has been growing rapidly since May 2010. The number of its users exceeded 4 million at the end of 2010. Linfo is the largest community with map location survey service currently in China, maintains a leading position in the area of LBS. It received various awards, such as the Mobile Entertainment Award — Entertainment of Mobile Phones, the Most Valuable Mobile Customer-end Award, the Outstanding Contribution Award of Community Service of the Chinese Mobile Industry, and the Supplier of Innovative Mobile Internet Services of the 2nd Analysys International EnfoNet Award.

Looking forward to 2011, Linfo will fully equip itself; endeavor to constantly enrich the experience of users and expand the number of active users. We believe that Linfo may become a future star of VODone Group.

Management Discussion and Analysis

Awards:

Awards and certificates obtained by VODone Group in 2010:

- Lottery View was awarded the Excellence Selling Organization of National Sports Lottery by General Administration of Sport
- Recognised as the "Reliable Internet Role Model Unit" by the China Internet Network Information Center in 2010
- Issued a "Online Transaction Security Certificate" by www.315online.com.cn (網上交易保障中心) to recognize VODone Lottery View as "Carefree Shopping Website"
- 2010 Contributions to Discipline and Governance for China's Internet Industry Award
- VODone was awarded The First Integrity Certification and Online Transaction Certification by the Ministry of Commerce of the People's Republic of China in 2010
- Outstanding Enterprise's Brand of Industry for Protection of Consumers' Rights relating to Online Transactions in 2010
- Awarded the "Most Influential Brand of New Media of China" in 2010
- VODone was awarded the "Most Potential Media for Investment" at the 7th Conference jointly held by various investment organizations and promoted by StanChina in 2010
- The "Best Mobile Telecom Innovative Products Awards of China in 2010"
- Supplier of Innovative Mobile Internet Services of the 2nd Analysys International EnfoNet Award 2010
- The Most Valuable Customer-end Mobile Phone Award 2010
- Outstanding Contribution Award of SNS Community Service — the Chinese Mobile Industry 2010

Management Discussion and Analysis

Financial Review

Revenues

The tele-media business contributed a revenue of HK$437,525,000 to the Group for the year 2010, an increase of 101% from 2009. Such increase in revenue was mainly due to the higher ranking of VODone's website in global portal list, coupled with the introduction of MOBUS and www.v1.cn, receiving the attention and approbation from advertisers, which collectively contributed advertising income to the Group.

The lottery-related business contributed a revenue of HK$179,252,000 to the Group for the year 2010, an increase of 178% from 2009 which comprises of service and advertising incomes. The lottery business is operated under the name of www.diyicai.com upon the acquisition of www.zgzcw.com and www.betrich.com of PRC. Having commenced the in-depth co-operation with various competent strategic partners and reinforced the marketing effort this year, the Group recorded rapid growth in the lottery business.

Mobile games business contributed HK$150,814,000 to the turnover of the Group for the year 2010, an increase of 789% from last year. Following the acquisition of Dragon Joyce Group in September of 2009, it's brand KKFun, which specializes in games design and production in non-smart phones, constituted a new growth driver for the Group in 2010, and thus resulted in a substantial growth in the revenue of this business of the Group in 2010. We acquired OWX – a mobile handset design house in September 2010 and 3GUU – a smart phone games designer and developer by the end of 2010, and together with Dragon Joyce Group, thus increased its synergy.

Costs

Despite the Group's turnover increased by 157%, the Group continues to control and stabilize its overall expenses. In 2010, selling, marketing and administrative expenses accounted for 30% of the Group's turnover, which dropped by 37.5% as compared with the corresponding expenses to the Group's turnover of 48% in 2009, reflecting the Group's determination and capability in cost control.

Net Profit

Profit attributable to the owners of the Company for the year was HK$325,428,000, compared to a profit of HK$105,307,000 in the last year, representing an increase of 209% on a year on year basis.

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2010, the Group had cash and cash equivalents of HK$399,282,000 (2009: HK$339,059,000), representing an increase of 18% from last year. Working capital was HK$680,279,000 as compared with the working capital of HK$569,514,000 at the end of last year, representing an increase of 19% from last year.

As at 31 December 2010 and 2009, the Group has no debt.

Capital Structure

As at 31 December 2010, the total asset of the Group was HK$2,363,247,000 (2009: HK$1,271,264,000). Issued number of shares increased from 2,266,427,996 shares (31 December 2009) to 2,398,864,996 shares (31 December 2010), which was mainly due to the issuance of new shares as a result of acquisitions and exercise of share options by employees. The Group's capital structure, as well as cash inflow, is therefore very healthy.

The Group controlled carefully the foreign exchange risk exposure. Exchange gain earned in the year 2010 was HK$2,619,000 (2009: loss of HK$1,906,000).

Dividends

A final dividend of HK1.38 cents per share (2009: HK0.6 cent per share) for the year ended 31 December 2010 was proposed pursuant to a resolution passed by the Board on 29 March 2011 and shall be subject to the approval of the shareholders at the Annual General Meeting. These consolidated financial statements do not reflect this dividend payable.

Human Resources

As at 31 December 2010, the Group had 630 employees. The Group remunerated its employees mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as the individual's performance. The Group will continue to emphasize on staff training and total quality management to better prepare its staff members for the upcoming changes and challenges in the market and industry.

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 38 to 109, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made 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 about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

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 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate no. P05309

Hong Kong, 29 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	7	**767,591**	298,702
Cost of revenue		**(162,406)**	(45,948)
Gross profit		**605,185**	252,754
Other gains and losses	8	**8,376**	2,928
Selling and marketing expenses		**(130,364)**	(63,749)
Administrative expenses		**(103,982)**	(79,380)
Share of loss of associates	17	**(2,410)**	(1,065)
Profit before income tax	9	**376,805**	111,488
Income tax expense	12(a)	**(27,091)**	(1,605)
PROFIT FOR THE YEAR		**349,714**	109,883
Other comprehensive income			
Exchange differences arising on translation		**47,029**	3,076
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**396,743**	112,959
PROFIT ATTRIBUTABLE TO:			
Owners of the Company		**325,428**	105,307
Non-controlling interests		**24,286**	4,576
		349,714	109,883
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		**369,864**	108,334
Non-controlling interests		**26,879**	4,625
		396,743	112,959
EARNINGS PER SHARE			
– Basic (HK cents)	14	**13.8 cents**	5.4 cents
– Diluted (HK cents)	14	**13.7 cents**	5.4 cents
Dividend per share (HK cents)			
Final dividend proposed	15	**1.38 cents**	0.6 cent

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	50,559	33,552
Interest in associates	17	51,571	51,473
Goodwill	18	873,756	474,314
Intangible assets	20	203,393	119,596
Deposits for acquisition of property, plant and equipment		6,239	853
		1,185,518	679,788
CURRENT ASSETS			
Trade receivables	21	118,550	14,374
Other receivables, deposits and prepayments	22	400,899	177,418
Inventories	23	2,427	–
Amount due from an associate	35(c)	238,598	55,407
Amounts due from related companies	35(d)	17,973	5,218
Bank balances and cash		399,282	339,059
		1,177,729	591,476
CURRENT LIABILITIES			
Trade payables	24	14,524	151
Other payables and accruals	25	131,185	17,528
Deposits received		1,661	2,467
Deferred consideration shares	29	318,206	–
Taxation		31,874	1,816
		497,450	21,962
NET CURRENT ASSETS		680,279	569,514
TOTAL ASSETS LESS CURRENT LIABILITITES		1,865,797	1,249,302
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	14,942	9,014
NET ASSETS		1,850,855	1,240,288
EQUITY			
Share capital	27	23,989	22,664
Shares to be issued	28	3,096	–
Reserves		1,728,239	1,170,816
Equity attributable to owners of the Company		1,755,324	1,193,480
Non-controlling interests		95,531	46,808
TOTAL EQUITY		1,850,855	1,240,288

Zhang Lijun
Director

Wang Chun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company								
	Share capital (note 27) HK$'000	Shares to be issued (note 28) HK$'000	Share premium (note 30 (a)) HK$'000	Contributed surplus (note 30(b)) HK$'000	Share-based compensation reserve (note 30(c)) HK$'000	Exchange fluctuation reserve (note 30(d)) HK$'000	Retained profits/ (Accumulated losses) HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2009	17,314	8,292	868,746	33,474	22,170	63,443	(423,587)	25,951	615,803
Profit or loss	–	–	–	–	–	–	105,307	4,576	109,883
Other comprehensive income	–	–	–	–	–	3,027	–	49	3,076
Total comprehensive income for the year	–	–	–	–	–	3,027	105,307	4,625	112,959
Shares issued on repurchase of convertible notes (note 27(i))	237	(8,292)	8,055	–	–	–	–	–	–
Shares issued on exercise of share options (note 27(ii))	870	–	15,844	–	(5,363)	–	–	–	11,351
Subscription of new shares (notes 27(iii))	1,440	–	77,760	–	–	–	–	–	79,200
Placing of shares (note 27(v))	920	–	127,864	–	–	–	–	–	128,784
Shares issued for									
– acquisition of assets (note 27(iv))	875	–	58,625	–	–	–	–	–	59,500
– acquisition of subsidiaries (note 27(vi))	1,008	–	204,602	–	–	–	–	–	205,610
Business acquisition (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 and 1 January 2010	22,664	–	1,361,496	33,474	26,708	66,470	(317,332)	46,808	1,240,288
Profit or loss	–	–	–	–	–	–	325,428	24,286	349,714
Other comprehensive income	–	–	–	–	–	44,436	–	2,593	47,029
Total comprehensive income for the year	–	–	–	–	–	44,436	325,428	26,879	396,743
Shares issued on exercise of share options (note 27(ii))	1,293	–	202,555	–	(21,456)	–	–	–	182,392
Shares issued for acquisition of assets (note 27(vii))	32	3,096	7,060	–	–	–	–	–	10,188
Business acquisitions (note 31)	–	–	–	–	–	–	–	21,844	21,844
Recognition of share-based payment expense (note 34)	–	–	–	–	13,616	–	–	–	13,616
Transfer upon cancellation of share options (note 34)	–	–	–	–	(221)	–	221	–	–
Transfer of share premium to accumulated loss (note 30(e))	–	–	(800,000)	460,503	–	–	339,497	–	–
Dividend paid (note 15)	–	–	–	(14,216)	–	–	–	–	(14,216)
At 31 December 2010	23,989	3,096	771,111	479,761	18,647	110,906	347,814	95,531	1,850,855

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Profit before income tax	**376,805**	111,488
Loss on dilution of shareholdings in a subsidiary	**–**	377
Bad debts written off	**–**	136
Depreciation of property, plant and equipment	**10,498**	6,961
Amortisation of intangible assets	**9,225**	1,383
Foreign exchange (gain)/losses, net	**(2,619)**	1,906
Interest income	**(2,391)**	(1,647)
Loss on disposal of property, plant and equipment	**29**	–
Share of loss of associates	**2,410**	1,065
Share-based payment expense in respect of granting of share options	**13,616**	10,849
Fair value gain on deferred consideration shares	**(2,932)**	–
Gain on deregistration of subsidiaries	**–**	(1,393)
Operating cash flows before working capital changes	**404,641**	131,125
Increase in trade receivables	**(79,179)**	(14,362)
Increase in other receivables, deposits and prepayments	**(208,189)**	(106,782)
Increase in amount due from an associate	**(177,615)**	(38,781)
Increase in amounts due from related companies	**(12,313)**	(718)
Increase in inventories	**(2,427)**	–
Increase in trade payables	**7,488**	151
Increase/(decrease) in other payables and accruals	**2,830**	(47,434)
(Decrease)/increase in deposits received	**(806)**	2,446
Effect of foreign exchange rate changes	**1,626**	100
Net cash used in operations	**(63,944)**	(74,255)
Income tax paid	**(3,563)**	–
Net cash used in operating activities	**(67,507)**	(74,255)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(16,849)	(17,810)
Purchases of intangible assets		(1,593)	–
Proceeds on disposal of property, plant and equipment		–	23
Business acquisitions	31	(31,188)	(39,836)
Interest received		2,391	1,647
Net cash used in investing activities		(47,239)	(55,976)
FINANCING ACTIVITIES			
Net proceeds from issue of shares		182,392	219,335
Payment of dividend		(14,216)	–
Repayment of finance lease obligations		–	(31)
Net cash generated from financing activities		168,176	219,304
NET INCREASE IN CASH AND CASH EQUIVALENTS		53,430	89,073
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		339,059	249,846
Effect of foreign exchange rate changes		6,793	140
CASH AND CASH EQUIVALENTS AT END OF YEAR		399,282	339,059
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		399,282	339,059

Statement of Financial Position

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	355	710
Interests in subsidiaries	19	1,492,697	886,642
Intangible assets	20	70,924	59,500
		1,563,976	946,852
CURRENT ASSETS			
Deposits and prepayments	22	2,684	2,934
Amount due from a related company	35(d)	33	33
Bank balances and cash		162,991	205,843
		165,708	208,810
CURRENT LIABILITIES			
Other payables and accruals	25	107,432	4,981
Deposits received		127	2,466
Amounts due to subsidiaries	19	7	6
Deferred consideration shares	29	318,206	–
Dividend payable		113	–
		425,885	7,453
NET CURRENT (LIABILITIES)/ASSETS		(260,177)	201,357
NET ASSETS		1,303,799	1,148,209
EQUITY			
Share capital	27	23,989	22,664
Shares to be issued	28	3,096	–
Reserves	30	1,276,714	1,125,545
TOTAL EQUITY		1,303,799	1,148,209

Zhang Lijun
Director

Wang Chun
Director

Notes to the Financial Statements

For the year ended 31 December 2010

1. CORPORATE INFORMATION

VODone Limited ("the Company") is a limited liability company incorporated in Bermuda. Its shares are listed on the Stock Exchange of Hong Kong Limited. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Its principal place of business is located at Room 3006, 30th floor, Gloucester Tower, the Landmark, 11 Pedder Street, Central, Hong Kong.

During the year, the Company and its subsidiaries (thereafter referred to as the "Group") is principally engaged in tele-media business, lottery-related business and mobile games business in the People's Republic of China ("PRC").

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STATNDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs-effective 1 January 2010

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment-Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements-Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the group's financial statements.

HKFRS 3 (Revised)-Business Combinations and HKAS 27(Revised)-Consolidated and Separate Financial Statements

The revised accounting policies are described in note 4 to the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The Group has accounted for the acquisition of subsidiaries according to the revised standard, details of which are set out in note 31 to the financial statements.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 had no impact on the current year.

Notes to the Financial Statements

For the year ended 31 December 2010

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STATNDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1&2]
HK(IFRIC)-Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments'
HKAS 24 (Revised)	Related Party Disclosures[2]
Amendments to HKFRS 7	Disclosure-Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010
2 Effective for annual periods beginning on or after 1 January 2011
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013

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

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention except for the contingent considerations that are classified as financial liabilities and carried at fair value.

Notes to the Financial Statements

For the year ended 31 December 2010

3. BASIS OF PREPARATION *(Continued)*

(c) Functional and presentation currency

The functional currency of the Company is Reminbi ("RMB"), while the financial statements are presented in Hong Kong dollar ("HK$"), which the directors considered is more beneficial to the users of the financial statements. As the Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited, the directors consider that it will be more appropriate to continuously adopt Hong Kong dollar as the presentation currency of the Company's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. 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.

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Business combination from 1 January 2010 *(Continued)*

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

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

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recognised profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill *(Continued)*

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The depreciation rates are as follows:

Leasehold improvements	Over the remaining life of the leases but not exceeding 5 years
Motor vehicles	5 years
Plant, machinery and equipment	5-10 years
Computer hardware and software	3-10 years
Furniture, fixtures and office equipment	3-5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (Note 4(o)).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leasing

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

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(g) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is 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. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Domouse	Indefinite
miniV.tv	Indefinite
Customers' relationship	7 years
Paperless lottery platform	5 years
Mobile games	2-7 years
Distribution networks	10 years
Websites	10 years

(ii) 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.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets *(Continued)*

(ii) Internally generated intangible assets (research and development costs) *(Continued)*

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 and included in cost of revenue.

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

(iii) 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.

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 4(o)).

(h) Financial Instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial Instruments *(Continued)*

(i) Financial assets *(Continued)*

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial Instruments *(Continued)*

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial Instruments *(Continued)*

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest 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.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(j) 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;

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Revenue recognition *(Continued)*

(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 games 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.

(k) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange fluctuation reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Employee benefits

Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

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 in Hong Kong 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.

(n) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss 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).

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Share-based payments *(Continued)*

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. When the entity cannot estimate reliably the fair value of goods or services received, they are indirectly measured by reference to the fair value of the equity instruments granted. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(o) Impairment of other assets

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 associates

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 as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 as income immediately.

(p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying 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.

Notes to the Financial Statements

For the year ended 31 December 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, 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.

(a) Critical judgments in applying accounting policies

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

(b) Key sources of estimation uncertainty

Valuation of intangible assets and useful life

The Group has made estimations and assumptions in relation to the potential future cash flows of identifiable intangible assets acquired as part of business combinations. This assessment involves estimations and assumptions relating to potential future revenues, appropriate discount rates and the useful life of such assets. These estimations and assumptions impact the income statement over the useful life of the intangible asset.

Notes to the Financial Statements

For the year ended 31 December 2010

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Contingent considerations

As part of the consideration transfer in business combinations as set out in notes 29 and 31, contingent consideration is valued at fair value at the acquisition date with the best estimates of the future outcome of the future events, such as earn-outs arrangement. Where the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at the end of each reporting period. The determination of the fair value is based on the expected adjustment on consideration shares to be issued. The key assumptions take into consideration the probability of meeting each profit target. In respect of the business combination transactions as disclosed in note 31, the Group identified the issuance of consideration shares as contingent considerations with a total fair value of HK$321,138,000 at the acquisition date, re-measured to HK$318,206,000 as at the 31 December 2010 (note 29).

(c) PRC corporate income tax ("CIT")

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT for domestic and foreign enterprises has been unified at 25%, effective 1 January 2008.

The CIT Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation of the CIT law and which were entitled to preferential income tax rates under the then effective tax laws or regulations.

On 26 December 2007, the State Council issued the "Circular to Implementation the Transitional Preferential Policies for the Corporate Income Tax". Pursuant to this circular, the transitional income tax rates for the Group's subsidiaries established in the Shenzhen. Special Economic Zone or the Beijing High Technology Zone before 16 March 2007 are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. Other tax preferential treatments such as reduction of 50% in income tax rate shall be based on the above transitional income tax rates for the respective years.

In April 2010, the PRC tax authorities issued a tax circular Guoshui 2010 No.157 to clarify that an entity is only allowed to enjoy either the preferential CIT rate of 15% as a High/New Technology Enterprise or CIT exemption for two or three years and followed by a 50% reduction for the next 3 years based on the unified CIT rate in the PRC.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(c) PRC corporate income tax ("CIT") *(Continued)*

TMD2, a non-wholly owned subsidiary of the Company, is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential CIT rate of 15%. TMD2 has also obtained a tax concession from北京市海淀區國家税務所第六税務所 ("local authority") in which the Company was fully exempted from CIT for year 2006 to 2008, followed by a 50% reduction in CIT for the next 3 years, 2009 to 2011. The provision of 7.5% CIT rate has been confirmed by the tax computation reports of TMD2 in 2009 and 2010.

Based on the above, there is an uncertainty that the PRC tax authorities might impose additional CIT for the year 2009 and 2010.

The directors considered the possibility of imposing additional CIT on TMD2 is remote with the following reasons:–

(i) TMD2 has obtained a further approval from local authority on 6 January 2010 to confirm the 7.5% CIT rate is the applicable tax rate from 2009 to 2011.

(ii) The directors have obtained legal opinion from PRC lawyer on 25 March 2011 to confirm the local authority did not follow the tax circular Guoshui 2010 No.157 as TMD2 has obtained approval of preferential CIT rate before its announcement. Therefore the tax approval from local authority on 6 January 2010 is still valid.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers 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 games 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.

Notes to the Financial Statements

For the year ended 31 December 2010

6. SEGMENT REPORTING *(Continued)*

(a) Business segments

	Tele-media business		Lottery-related business		Mobile games business		Total	
	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	**437,525**	217,263	**179,252**	64,481	**150,814**	16,958	**767,591**	298,702
Reportable segment profit	**226,810**	101,369	**103,976**	36,422	**84,819**	15,155	**415,605**	152,946
Interest income	**1,612**	1,257	**–**	–	**71**	–	**1,683**	1,257
Depreciation and amortisation	**(9,642)**	(6,128)	**(1,261)**	(27)	**(8,442)**	(1,412)	**(19,345)**	(7,567)
Income tax expenses	**(16,348)**	(1,812)	**(7,594)**	–	**(3,149)**	207	**(27,091)**	(1,605)
Reportable segment assets	**814,840**	622,427	**567,161**	97,260	**763,500**	289,955	**2,145,501**	1,009,642
Additions to non-current assets	**53,360**	15,968	**138,026**	61,162	**306,253**	270,276	**497,639**	347,406
Reportable segment liabilities	**27,776**	9,069	**14,309**	1,338	**44,413**	13,105	**86,498**	23,512

Notes to the Financial Statements

For the year ended 31 December 2010

6. SEGMENT REPORTING *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Profit before income tax		
Reportable segment profit	**415,605**	152,946
Other gains and losses	**3,640**	3,577
Share of loss of associates	**(2,410)**	(1,065)
Share-based payment expense	**(13,616)**	(10,849)
Directors' remuneration	**(12,184)**	(19,173)
Salaries and wages	**(4,435)**	(4,263)
Unallocated corporate expenses	**(9,795)**	(9,685)
Consolidated profit before income tax	**376,805**	111,488
Assets		
Reportable segment assets	**2,145,501**	1,009,642
Interest in associates	**51,571**	51,473
Bank balances and cash	**163,103**	206,557
Unallocated corporate assets	**3,072**	3,592
Consolidated total assets	**2,363,247**	1,271,264
Liabilities		
Reportable segment liabilities	**86,498**	23,512
Other payables and accruals	**107,561**	4,997
Deferred consideration shares	**318,206**	–
Unallocated corporate liabilities	**127**	2,467
Consolidated total liabilities	**512,392**	30,976

(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.

Notes to the Financial Statements

For the year ended 31 December 2010

6. 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$323,960,000 (2009: HK$184,624,000) in the tele-media segment and amounted to approximately HK$138,559,000 (2009: HK$28,098,000) in the lottery-related segment.

7. 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:

	2010 HK$'000	2009 HK$'000
Revenue		
Tele-media business:		
– advertising and service income	437,525	217,263
Lottery-related business:		
– service and advertising income	179,252	64,481
Mobile games business:		
– sales of mobile games and provision of maintenance service of mobile communication products	150,814	16,958
	767,591	298,702

Notes to the Financial Statements

For the year ended 31 December 2010

8. OTHER GAINS AND LOSSES

	2010 HK$'000	2009 HK$'000
Fair value gain on deferred consideration shares	**2,932**	–
Net foreign exchange gain/(losses)	**2,619**	(1,906)
Interest income	**2,391**	1,647
Gain on deregistration of subsidiaries	**–**	1,393
Loss on dilution of shareholdings in a subsidiary	**–**	(377)
Loss on disposal of property, plant and equipment	**(29)**	–
Others	**463**	2,171
	8,376	2,928

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2010 HK$'000	2009 HK$'000
Staff costs (excluding directors' remuneration (note 10))		
Salaries and wages	**48,986**	18,959
Pension fund contributions	**9,562**	3,512
Share-based payments	**6,944**	6,788
	65,492	29,259
Carrying amount of inventories sold	**10,634**	–
Amortisation of intangible assets included in		
Cost of revenue	**8,186**	1,383
Administrative expenses	**1,039**	–
Depreciation of property, plant and equipment	**10,498**	6,961
Bad debts written off	**–**	136
Auditor's remuneration	**972**	740

Notes to the Financial Statements

For the year ended 31 December 2010

10. DIRECTORS' REMUNERATION

	2010 HK$'000	2009 HK$'000
Directors' fees		
Executive directors	5,254	5,254
Independent non-executive directors	400	400
Basic remuneration, allowances and benefits in kind	7,029	13,519
Share-based payments	6,672	2,823
Pension fund contributions	40	44
	19,395	22,040

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$'000	Basic remuneration, allowances and benefits in kind HK$'000	Share-based payments HK$'000	Pension fund contributions HK$'000	Total HK$'000
2010					
Executive directors					
Zhang Lijun	3,935	2,065	626	12	6,638
Wang Chun	1,319	1,681	626	12	3,638
Sin, Hendrick	–	2,340	4,629	12	6,981
Yue Hong Chu (i)	–	444	–	4	448
Li Xiaohua (ii)	–	499	545	–	1,044
Independent non-executive directors					
Loke Yu, Alias Loke Hoi Lam	160	–	82	–	242
Wang Zhichen	120	–	82	–	202
Wang Linan	120	–	82	–	202
	5,654	7,029	6,672	40	19,395

Notes to the Financial Statements

For the year ended 31 December 2010

10. DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees HK$'000	Basic remuneration, allowances and benefits in kind HK$'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
Sin, Hendrick	–	8,273	2,368	10	10,651
Yue Hong Chu	–	1,500	455	12	1,967
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

(i) resigned on 7 April 2010

(ii) appointed on 7 April 2010

There were no arrangements under which a director waived or agreed to waive any remuneration for the year (2009: Nil). In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the year (2009: Nil).

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For the year ended 31 December 2010

11. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, three (2009: four) were directors of the Company whose emoluments are included in the disclosures in Note 10 above. The emoluments of the remaining two (2009: one) individuals were as follows:

	2010 **HK$000**	2009 HK$000
Basic remuneration, allowances and benefits in kind	**2,316**	1,488
Share-based payments	**980**	182
Pension fund contributions	**24**	12
	3,320	1,682

Their emoluments were within the following bands:

	No. of employees	No. of employee
HK$1,500,000 to HK$2,000,000	**2**	1

12. INCOME TAX EXPENSE

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

	2010 **HK$'000**	2009 HK$'000
Current tax-PRC		
– provision for the year	**27,149**	1,812
Current tax-Hong Kong Profits Tax		
– provision for the year	**1,176**	–
Deferred taxation (note 26)		
– attributable to the reversal of temporary differences	**(1,234)**	(207)
	27,091	1,605

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.

Notes to the Financial Statements

For the year ended 31 December 2010

12. INCOME TAX EXPENSE *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Profit before income tax	376,805	111,488
Taxation calculated at PRC income tax of 25% (2009: 25%)	94,201	27,872
Tax effect of non-taxable income	(2,696)	(5,492)
Tax effect of expenses not deductible for taxation purposes	5,892	8,224
Utilisation of previously unrecognised tax loss	(187)	(12,725)
Tax effect of tax losses not recognised	6,653	–
Effect of tax exemptions granted	(46,003)	(8,484)
Effect of lower tax rate applicable to a subsidiary as a result of preferential tax policy as described in (a)	(34,069)	(11,310)
Effect of tax rates in foreign jurisdictions	3,300	3,520
Income tax expense for the year	27,091	1,605

13. PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit for the year attributable to owners of the Company for the year ended 31 December 2010 includes a loss of HK$36,390,000 (2009: HK$69,871,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS PER SHARE

	2010 HK cents	2009 HK cents
Basic earnings per share	13.8	5.4
Diluted earnings per share	13.7	5.4

Notes to the Financial Statements

For the year ended 31 December 2010

14. EARNINGS PER SHARE *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Profit		
Profit for the year attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**325,428**	105,307
Number of shares		
Issued ordinary shares at 1 January	**2,266,427,996**	1,731,366,355
Effect of shares issued on repurchase of convertible notes	**–**	15,967,967
Effect of shares issued on exercise of share options	**97,213,153**	42,607,288
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 (i)	**1,485,589**	43,630,137
Effect of shares issued on acquisition of subsidiaries	**–**	18,224,920
Weighted average number of ordinary share for basic earnings per share	**2,365,126,738**	1,945,692,557
Effect of dilution		
– share options	**8,645,819**	10,997,058
Weighted average number of ordinary share for basic earnings per share, adjusted for the effect of dilution	**2,373,772,557**	1,956,689,615

(i) The weighted average number of shares in issue during the year ended 31 December 2010 represents the 1,370,000 shares in issue before the end of reporting period, as if such shares had been outstanding since the acquisition date.

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For the year ended 31 December 2010

15. DIVIDENDS

	2010 HK'000	2009 HK'000
Final, proposed-HK1.38 cents (2009: HK0.6 cent) per share	**34,991**	14,216

At a meeting held on 29 March 2011, the directors recommended a final dividend of HK1.38 cents per ordinary share. The proposed dividends are not reflected as a dividend payable in these financial statements, but will be reflected as an appropriate of retained earnings for the year ending 31 December 2011.

16. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Computer hardware and software HK$'000	Furniture, fixture, and office equipment HK$'000	Total HK$'000
Cost:						
At 1 January 2009	6,983	8,507	13,039	3,373	1,046	32,948
Business acquisitions (note 31)	–	–	–	224	176	400
Additions	114	–	12,340	5,344	12	17,810
Disposals	–	–	(41)	–	–	(41)
Exchange adjustments	10	16	46	16	2	90
At 31 December 2009	7,107	8,523	25,384	8,957	1,236	51,207
Business acquisitions (note 31)	–	–	82	8,019	1,111	9,212
Additions	6,596	101	5,502	4,550	100	16,849
Disposals	–	–	–	(39)	–	(39)
Exchange adjustments	389	333	1,100	455	48	2,325
At 31 December 2010	14,092	8,957	32,068	21,942	2,495	79,554
Accumulated depreciation:						
At 1 January 2009	5,132	2,134	2,783	471	160	10,680
Charge for the year	1,688	1,393	3,061	688	131	6,961
Written back on disposal	–	–	(18)	–	–	(18)
Exchange adjustments	10	7	13	1	1	32
At 31 December 2009	6,830	3,534	5,839	1,160	292	17,655
Charge for the year	522	1,411	5,518	2,819	228	10,498
Written back on disposal	–	–	–	(10)	–	(10)
Exchange adjustments	223	173	354	85	17	852
At 31 December 2010	7,575	5,118	11,711	4,054	537	28,995
Carrying amount:						
At 31 December 2010	6,517	3,839	20,357	17,888	1,958	50,559
At 31 December 2009	277	4,989	19,545	7,797	944	33,552

Notes to the Financial Statements

For the year ended 31 December 2010

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

Company	Leasehold improvements HK$'000	Plant, machinery and equipment HK$'000	Furniture, fixture, and office equipment HK$'000	Total HK$'000
Cost:				
At 1 January 2009	1,470	663	257	2,390
Additions	15	1	3	19
Disposals	–	(41)	–	(41)
At 31 December 2009	1,485	623	260	2,368
Additions	–	6	17	23
At 31 December 2010	1,485	629	277	2,391
Accumulated depreciation:				
At 1 January 2009	686	155	57	898
Charge for the year	593	133	52	778
Written back on disposal	–	(18)	–	(18)
At 31 December 2009	1,279	270	109	1,658
Charge for the year	199	125	54	378
At 31 December 2010	1,478	395	163	2,036
Carrying amount:				
At 31 December 2010	7	234	114	355
At 31 December 2009	206	353	151	710

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For the year ended 31 December 2010

17. INTEREST IN ASSOCIATES

	Group	
	2010 HK$'000	2009 HK$'000
Share of net liabilities	**(5,568)**	(3,538)
Goodwill	**57,139**	55,011
	51,571	51,473

The goodwill arising from acquisition of the associate was related to the Group's tele-media services business ("Tele-media CGU") in the PRC and has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD).

Particulars of the Group's associates 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
北京迷你威網絡科技有限公司	PRC	49%	49%	Inactive

Notes to the Financial Statements

For the year ended 31 December 2010

17. INTEREST IN ASSOCIATES *(Continued)*

Summarised financial information in respect of the associates is set out below:

	2010 HK$'000	2009 HK$'000
Total assets	**253,133**	64,002
Total liabilities	**(264,496)**	(71,222)
	(11,363)	(7,220)
Group's share of associates' net liabilities	**(5,568)**	(3,538)
Revenue	**483,044**	221,936
Loss for the year	**(4,918)**	(2,174)
Group's share of associates' loss for the year	**(2,410)**	(1,065)

18. GOODWILL

	Group HK$'000
Cost:	
At 1 January 2009	265,188
Business acquisitions (note 31)	208,636
Exchange adjustments	490
At 31 December 2009	474,314
Business acquisitions (note 31)	381,102
Exchange adjustments	18,340
At 31 December 2010	873,756

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18. GOODWILL *(Continued)*

For the purpose of impairment testing, goodwill is allocated to the cash generating units ("CGU") identified as follows:

	2010 HK$'000	2009 HK$'000
Tele-media CGU (TMD)-PRC	275,951	265,678
Tele-media CGU (Pinzheng)-PRC (note 31(d))	108,381	–
Mobile game CGU (Dragon Joyce)-PRC	216,703	208,636
Mobile game CGU (3GUU)-PRC (note 31(e))	194,257	–
Mobile game CGU (OWX) – PRC (note 31(c))	78,464	–
	873,756	474,314

Tele-media CGU (TMD)

The recoverable amounts of tele-media CGU (TMD) have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated average growth rate of 3% (2009: 3%), which does not exceed the long-term growth rate for tele-media industry in the PRC.

	2010	2009
Discount rate	18.68%	19.14%
Growth rate within the five-year period	10%-50%	10%-50%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the five-year period has been based on past experience.

Tele-media CGU (Pinzheng)

The recoverable amounts of tele-media CGU (Pinzheng) have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a three-year period. Cash flow beyond the three-year period is extrapolated using an estimated average growth rate of 3%, which does not exceed the long-term growth rate for tele-media industry in the PRC.

	2010
Discount rate	20.33%
Growth rate within the three-year period	25%-31%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the three-year period has been based on past experience.

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18. GOODWILL *(Continued)*

Mobile game CGU (Dragon Joyce)

The recoverable amounts of mobile game CGU (Dragon Joyce) have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated average growth rate of 3% (2009: 3%), which does not exceed the long-term growth rate for mobile game industry in the PRC.

	2010	2009
Discount rate	24.21%	25.99%
Growth rate within the five-year period	5%-30%	5%-30%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the five-year period has been based on past experience.

Mobile game CGU (3GUU)

The recoverable amounts of mobile game CGU (3GUU) have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a three-year period. Cash flow beyond the three-year period are extrapolated using an estimated average growth rate of 3%, which does not exceed the long-term growth rate for mobile game industry in the PRC.

	2010
Discount rate	24.57%
Growth rate within the three-year period	30%-35%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the three-year period has been based on past experience.

Mobile game CGU (OWX)

The recoverable amounts of mobile game CGU (OWX) have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a two-year period. Cash flow beyond the two-year period is extrapolated using an estimated average growth rate of 3%, which does not exceed the long-term growth rate for mobile game industry in the PRC.

	2010
Discount rate	22.17%
Growth rate within the two-year period	50%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the two-year period has been based on past experience.

All the recoverable amount of the CGUs is higher than its carrying amount with reference to the valuation. Accordingly, no impairment loss on goodwill is required.

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19. INTERESTS IN SUBSIDIARIES

	Company	
	2010 HK$'000	2009 HK$'000
Unlisted shares/capital contributions, at cost	**971,324**	716,331
Due from subsidiaries	**555,682**	204,620
	1,527,006	920,951
Less: Provision for impairment	**(34,309)**	(34,309)
	1,492,697	886,642

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 2010 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 by the Company Directly	Attributable equity interest held by the Company Indirectly	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	RMB208,000,000	–	100%	Provision of advertisement production services
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

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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 by the Company Directly	Indirectly	Principal activities
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 games
北京動感樂風信息技術有限公司(i)	PRC	RMB30,000	–	70%	Development and provision of mobile games
深圳市豆玩網路科技有限公司(i)	PRC	RMB1,000,000	–	70%	Development and provision of mobile games
深圳市奇樂無限軟體發展有限公司 (i)	PRC	RMB100,000	–	70%	Development and provision of mobile games
廣州億通天下軟件開發有限公司 (i)	PRC	USD3,000,000	–	70%	Development and provision of mobile games of smart phones
廣州盈正信息技術有限公司	PRC	RMB10,000,000	–	70%	Development and provision of mobile games of smart phones
OWX Hong Kong Limited (一高香港有限公司)	Hong Kong	HK$100	–	70%	Provision of developing, designing and maintenance services of mobile communication products
深圳市中拓科創科技有限公司(i)	PRC	RMB100,000	–	70%	Provision of developing, designing and maintenance services of mobile communication products
北京迷你微視信息技術有限公司(i)	PRC	RMB3,400,000	–	100%	Development and provision of video in mobile phones

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

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20. INTANGIBLE ASSETS

Group	Domouse assets HK$'000 (note (a))	miniV.tv assets HK$'000 (note (b))	Customers' relationship HK$'000	Paperless lottery platform HK$'000 (note (c))	Mobile games HK$'000	Distribution networks HK$'000	Websites HK$'000	Total HK$'000
Cost:								
At 1 January 2009	–	–	–	–	–	–	–	–
Business acquisitions (note 31)	–	–	–	–	35,024	26,455	–	61,479
Additions (note 27(iv))	59,500	–	–	–	–	–	–	59,500
At 31 December 2009	59,500	–	–	–	35,024	26,455	–	120,979
Business acquisitions (note 31)	–	31,652	16,314	–	15,111	–	14,959	78,036
Additions (note 27(vii))	–	–	–	12,463	–	–	–	12,463
Exchange difference	–	–	237	–	1,457	1,100	–	2,794
At 31 December 2010	59,500	31,652	16,551	12,463	51,592	27,555	14,959	214,272
Amortisation:								
At 1 January 2009	–	–	–	–	–	–	–	–
Amortisation for the year	–	–	–	–	(905)	(478)	–	(1,383)
At 31 December 2009	–	–	–	–	(905)	(478)	–	(1,383)
Amortisation for the year	–	–	(421)	(1,039)	(5,079)	(2,686)	–	(9,225)
Exchange difference	–	–	(11)	–	(170)	(90)	–	(271)
At 31 December 2010	–	–	(432)	(1,039)	(6,154)	(3,254)	–	(10,879)
Carrying amount:–								
At 31 December 2010	59,500	31,652	16,119	11,424	45,438	24,301	14,959	203,393
At 31 December 2009	59,500	–	–	–	34,119	25,977	–	119,596

Notes to the Financial Statements

For the year ended 31 December 2010

20. INTANGIBLE ASSETS *(Continued)*

Company	Domouse assets (note (a)) HK$'000	Paperless lottery platform (note (c)) HK$'000	Total HK$'000
Cost:			
At 1 January 2009	–	–	–
Additions	59,500	–	59,500
At 31 December 2009	59,500	–	59,500
Additions	–	12,463	12,463
At 31 December 2010	59,500	12,463	71,963
Amortisation:			
At 1 January 2009	–	–	–
Amortisation for the year	–	–	–
At 31 December 2009	–	–	–
Amortisation for the year	–	1,039	1,039
At 31 December 2010	–	1,039	1,039
Carrying amount:			
At 31 December 2010	59,500	11,424	70,924
At 31 December 2009	59,500	–	59,500

Notes:

(a) 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 26.21%.

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

Notes to the Financial Statements

For the year ended 31 December 2010

20. INTANGIBLE ASSETS *(Continued)*

(b) As referred to note 31(b), the Group acquired the miniV.tv Assets through acquisition of miniV.tv Group (as defined in note 31(b)). As the economic benefits arising from the miniV.tv Assets are totally integrated with the existing operating segments of the Group, the "With and Without Approach" has applied to derive the incremental business enterprise value arising from the acquisition of the miniV.tv Assets. Under this approach, the incremental business enterprise value arising from the acquisition of the miniV.tv Assets were estimated by considering the net impact on the Group's cash flow by generating two different scenarios, namely: (1) the business enterprise value of the Group under a scenario "WITH the miniV.tv Assets"; and (2) the business enterprise value of the Group under a scenario "WITHOUT the miniV.tv Assets". The incremental business enterprise value arising from the acquisition of the miniV.tv Assets is derived from the difference of the business enterprise values between the two scenarios aforementioned. The discount rate applied in the valuation was 26.21%.

The fair value of the miniV.tv Assets is higher than its carrying amount with reference to the valuation. According, no impairment loss is required.

(c) Paperless Lottery Platform included paperless lottery platform, its related hardware, software technology, operating rights, trading rights relating operating permits, authorities rights and all relating assets, with a useful life of five years. It is tested for impairment and there is no indication that it needs to be impaired.

21. TRADE RECEIVABLES

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

	Group	
	2010 **HK$'000**	2009 HK$'000
Within 1 month	**92,669**	20
2 to 3 months	**22,192**	14,340
4 to 6 months	**2,492**	3
7 to 12 months	**1,132**	–
Over 1 year	**65**	11
	118,550	14,374

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

Notes to the Financial Statements

For the year ended 31 December 2010

21. TRADE RECEIVABLES *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Neither past due nor impaired	107,498	14,360
Less than 1 month past due	7,243	–
1 to 3 months past due	3,340	–
More than 3 months past due	469	14
	118,550	14,374

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	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Other receivables (note (a))	6,172	21,521	–	–
Deposits	5,317	3,028	2,684	2,789
Prepayments (note (b))	389,410	152,869	–	145
	400,899	177,418	2,684	2,934

Notes:

(a) Included in other receivables as at 31 December 2009 was a refundable deposit of RMB18,090,000, equivalent to HK$20,586,000, paid to Sino Sky Telecom Industry Group ("Sino Sky"), the non-controlling interest of TMD2, in relation to the promotion and marketing agreement entered between TMD2 and Sino Sky in 2008. The balance was repaid in October 2010.

(b) Included in prepayments was prepaid cost for advertising space of HK$382,653,000 (2009: HK$149,247,000). The director is of the opinion that all the amount is expected to be utilised no more than twelve months after the reporting period.

Notes to the Financial Statements

For the year ended 31 December 2010

23. INVENTORIES

	Group	
	2010 HK$'000	2009 HK$'000
Raw materials	**2,125**	–
Work–in-progress	**299**	–
Finished goods	**3**	–
	2,427	–

24. TRADE PAYABLES

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	
	2010 HK$'000	2009 HK$'000
Current or less than 1 month	**11,198**	100
1 to 3 months	**3,197**	3
More than 3 months but less than 12 months	**129**	48
	14,524	151

Notes to the Financial Statements

For the year ended 31 December 2010

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Other payables	**122,935**	13,874	**107,432**	4,981
Accruals	**8,250**	3,654	**–**	–
	131,185	17,528	**107,432**	4,981

Note:

Included in other payables of the Group and the Company as at 31 December 2010 were cash considerations of acquisition of assets of HK$682,000 (note 27(vii)) and business acquisition of HK$104,037,000 (note 31(d)&(e)).

26. DEFERRED TAXATION

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

	Group Fair value adjustments HK$'000
At 1 January 2009	–
Business acquisitions (note 31)	9,221
Credit to statement of comprehensive income for the year	(207)
At 31 December 2009	9,014
Business acquisitions (note 31)	6,781
Credit to statement of comprehensive income for the year	(1,234)
Exchange difference	381
At 31 December 2010	14,942

Notes to the Financial Statements

For the year ended 31 December 2010

26. DEFERRED TAXATION *(Continued)*

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

	Group	
	2010 HK$'000	2009 HK$'000
Unused tax losses	**13,423**	8,945

Out of the tax losses of the Group as at 31 December 2010, approximately HK$6,510,000 (2009: HK$2,032,000) has an expiry period of five years since 2007.

No deferred tax liability has been recorded on temporary differences of HK$423,173,000 (2009: HK$16,580,000) relating the undistributed earnings of foreign subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

27. SHARE CAPITAL

	2010 HK$'000	2009 HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
2,398,864,996 (2009: 2,266,427,996) ordinary shares of HK$0.01 each	**23,989**	22,664

Notes to the Financial Statements

For the year ended 31 December 2010

27. SHARE CAPITAL *(Continued)*

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

	Number of ordinary shares	Share capital HK$'000
At 1 January 2009	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
Shares issued on exercise of shares options (ii)	129,257,000	1,293
Shares issued on acquisition of assets (vii)	3,180,000	32
At 31 December 2010	2,398,864,996	23,989

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 129,257,000 (2009: 87,080,000) ordinary shares in the Company at consideration of HK$182,392,000 (2009: HK$11,351,000) of which HK$1,293,000 (2009: HK$870,000) was credited to share capital and the balance of HK$181,099,000 (2009: HK$10,481,000) was credited to the share premium account. HK$21,456,000 (2009 HK$5,363,000) has been transferred from the share-based compensation reserve to the share premium account.

(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.

Notes to the Financial Statements

For the year ended 31 December 2010

27. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(vi) As referred to note 31(a), as part of the settlement for the completion of acquisition of 70% interest in Dragon Joyce on 22 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.

(vii) On 19 July 2010, the Company completed the acquisition of certain intangible assets, as described in note 20 to the financial statements. The consideration was satisfied by HK$2,275,000 consideration in cash and the issuance of 4,550,000 consideration shares of HK$2.26, the market value of the share at the date of acquisition as the fair value of the relevant assets cannot be reliably measured. As at the end of reporting period, HK$1,593,000 has been paid and 3,180,000 consideration shares have been issued.

28. SHARES TO BE ISSUED

	Group and the Company	
	2010	2009
	HK$'000	HK$'000
Fair value of 1,370,000 consideration shares to be issued for acquisition of assets (note 27(vii))	**3,096**	–

29. DEFERRED CONSIDERATION SHARES

	Group and the Company	
	2010	2009
	HK$'000	HK$'000
Fair value of shares to be issued on business acquisition-OWX Group (note (i))	**68,867**	–
Fair value of shares to be issued on business acquisition-Pinzheng Group (note (ii))	**84,699**	–
Fair value of shares to be issued on business acquisition-3GUU Group (note (iii))	**164,640**	–
	318,206	–

(i) As referred to note 31(c), as part of the consideration for the acquisition of 70% of business in OWX Group (as defined in note 31(c)), the Company is required to issued 28,694,372 new shares to the vendors at a price of HK$2.33 per share, the market value of the share of the date of acquisition. The consideration shares are subject to lock-up and dealing restrictions and adjustments as detailed in note 31(c). It was subsequently re-measured to fair value (HK$2.4 per share) at the end of reporting period.

Notes to the Financial Statements

For the year ended 31 December 2010

29. DEFERRED CONSIDERATION SHARES *(Continued)*

(ii) As referred to note 31(d), as part of the consideration for the acquisition of business in Pinzheng Group (as defined in note 31(d)), the Company is required to issued 35,291,416 new shares to the vendors at a price of HK$2.54 per share, the market value of the share at the date of acquisition. The consideration shares are subject to lock-up and dealing restrictions and adjustments as detailed in note 31(d). It is subsequently re-measured to fair value (HK$2.4 per share) at the end of reporting period.

(iii) As referred to note 31(e), as part of the consideration for the acquisition of 70% interest in 3GUU Group (as defined in note 31(e)), the Company is required to issued 68,600,000 new shares to the vendors at price of HK$2.4 per share, the market value of the share at the date of acquisition. The consideration shares are subject to lock-up and dealing restrictions and adjustments as detailed in note 31(e). It is subsequently re-measured to fair value (HK$2.4 per share) at the end of reporting period.

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 2009	**868,746**	**76,838**	**22,170**	**(270,574)**	**697,180**
Total comprehensive income for the year	–	–	–	(69,871)	(69,871)
Shares issued on repurchase of convertible notes (note 27(i))	8,055	–	–	–	8,055
Shares issued on exercised of share options (note 27(ii))	15,844	–	(5,363)	–	10,481
Subscription of new share (note 27(iii))	77,760	–	–	–	77,760
Placing of shares (note 27(v))	127,864	–	–	–	127,864
Shares issued for					
– acquisition of assets (note 27(iv))	58,625	–	–	–	58,625
– acquisition of subsidiaries (note 27(vi))	204,602	–	–	–	204,602
Transfer upon cancellation of share options	–	–	(948)	948	–
Recognition of share-based payment expense (note 34)	–	–	10,849	–	10,849
Balance at 31 December 2009 and 1 January 2010	**1,361,496**	**76,838**	**26,708**	**(339,497)**	**1,125,545**

Notes to the Financial Statements

For the year ended 31 December 2010

30. RESERVES *(Continued)*

Company *(Continued)*

	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
Total comprehensive income for the year	–	–	–	(36,390)	(36,390)
Shares issued on exercised of share options (note 27(ii))	202,555	–	(21,456)	–	181,099
Shares issued for acquisition of the assets (note 27(vii))	7,060	–	–	–	7,060
Recognition of share-based payment expense (note 34)	–	–	13,616	–	13,616
Transfer upon cancellation of share options	–	–	(221)	221	–
Transfer of share premium to accumulated loss (note (e))	(800,000)	460,503	–	339,497	–
Dividend paid (note 15)	–	(14,216)	–	–	(14,216)
Balance at 31 December 2010	**771,111**	**523,125**	**18,647**	**(36,169)**	**1,276,714**

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 the 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 Bermuda Companies Act 1981 (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 4(n).

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

(e) Credit of the Share Premium Account is reduced by HK$800,000,000, with part of the credit arising therefrom being applied towards offsetting the entire amount of the accumulated losses of the Company as at 31 December 2009 and the remaining balance being credited to the contributed surplus account of the Company.

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31. BUSINESS ACQUISITIONS

(a) On 22 October 2009, the Company acquired 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.

	HK$'000	HK$'000
Net assets acquired:		
Property, plants and equipments (note 16)	400	
Intangible assets (note 20)	61,479	
Other receivables	12	
Cash and cash equivalents	164	
Other payables	(5)	
Deferred tax liabilities (note 26)	(9,221)	52,829
Non-controlling interests		(15,855)
		36,974
The fair value of consideration transfer:		
Cash	40,000	
100,789,333 Consideration Shares at HK$2.04 each (note 27(vi))	205,610	245,610
Goodwill (note 18)		208,636

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.

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 year end, 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 Target of the remaining periods will be achievable, accordingly no adjustment to the purchase consideration is considered necessary.

Notes to the Financial Statements

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31. BUSINESS ACQUISITIONS *(Continued)*

(a) *(Continued)*

Period involved	Profit Target
Period from 1 October 2009 to 31 December 2009	RMB13,750,000
Year ended 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.

(b) On 6 August 2010, the Group acquired 100% of the voting equity instruments of miniV.tv Holdings Limited and its subsidiaries ("miniV.tv Group"). The principal activity of the acquiree is development and provision of video in mobile phones. The intangible assets acquired by the Group include all the rights of miniV.tv Group in relation to the Domain Names (www.miniv.tv), all the rights to the miniV.tv Software and Database, the miniV.tv Platform which can be assessed by computers and mobile phones and any relevant intellectual property rights.

The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	HK$'000	HK$'000
miniV.tv Assets (note 20)	31,652	
Property, plant and equipment (note 16)	7,716	
Investment in an associate (note 17)	579	
Bank balances and cash	153	
Other receivables, deposits and prepayments	167	
Other payables and accruals	(407)	39,860
The fair value of consideration transfer:		
Cash		39,860

The miniV.tv Group does not meet the definition of a business, therefore, the above acquisition is deemed as acquisition of assets.

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31. BUSINESS ACQUISITIONS *(Continued)*

(c) On 11 October 2010, OWX Hong Kong Limited, a subsidiary of the Group, purchased 70% of the tangible and intangible assets of Shenzhen Tastech Electronic Company Limited, a company establisted in the PRC, and Bright Way Technology (Hong Kong) Limited, a company incorporated in Hong Kong ("OWX Group"). OWX Group is principally engaged in developing, designing and providing maintenance services of mobile communication products.

The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	HK$'000	HK$'000
Customers' relationship (note 20)	16,314	
Other receivables	3,891	
Tax payable	(678)	
Deferred tax liabilities recognised upon fair value adjustments (note 26)	(2,692)	16,835
Non-controlling interests		(5,050)
		11,785
The fair value of consideration transfer:		
Cash	23,391	
28,694,372 Consideration Shares at HK$2.33 each (note 29(i))	66,858	90,249
Goodwill (note 18)		78,464

The above consideration transferred includes a performance-based contingent consideration adjustment, which is principally based on the acquiree's profit in a three-year period after acquisition. The adjustment will be settled after the end of the three-year period. During the current period, the actual results of OWX Group is not less than the profit target and the directors of the Company are of the opinion that the profit target of the remaining periods will be achievable, no adjustment to the purchases consideration is considered necessary.

Period involved	Profit Target
Period from 1 September 2010 to 31 December 2010	RMB10,000,000
Year ending 31 December 2011	RMB36,000,000
Year ending 31 December 2012	RMB50,000,000

The fair value of other receivables amounted to HK$3,890,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The fair value of the shares issued was determined by reference to their quoted market price of HK$2.33 at the date of acquisition.

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31. BUSINESS ACQUISITIONS *(Continued)*

(c) *(Continued)*

OWX Group has established long-term business relationships with Chinese-brand mobile handset developers and manufacturers which adopt MediaTek and MStar handset chips. Through the acquisition, the Group will strengthen and enhance its mobile communications distribution channels and accelerate its development and application of new mobile handset chips and operating systems in the PRC. Customer Relationship is the only significant intangible asset to be included in the acquisition and no other intangible asset appeared to be material.

The goodwill of HK$78,464,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group. The integration of upstream technical resources helps form the technology synergies enables the Group to accelerate its development and application of new mobile handset chips and operating systems in the PRC.

The Group has elected to measure the non-controlling interest in OWX Group at the proportionate share of the acquiree's identifiable net assets.

Since the acquisition date, OWX Group has contributed HK$19,233,000 and HK$6,511,000 to the Group's revenue and profit. If the acquisition had occurred on 1 January 2010, the Group's revenue and profit would have been increased by HK$85,610,000 and HK$28,982,000 respectively.

(d) On 20 December 2010, VODone Mobile Entertainments Limited, a subsidiary of the Group, purchased all tangible and intangible assets from Beijing Pinzheng Technology Development Company Limited, a company established in the PRC ("Pinzheng Group"). Pinzheng Group is principally engaged in the provisions of lottery information and services in the PRC. It currently operates two websites, www.zgzcw.com and www.betrich.com which engaged in the provision of worldwide football lottery information and provision of lottery service supports in the PRC.

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31. BUSINESS ACQUISITIONS *(Continued)*

(d) *(Continued)*

The provisional fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	HK$'000	HK$'000
Websites (note 20)	14,959	
Other receivables, deposits and prepayments	5,281	
Deferred tax liabilities recognised upon fair value adjustments (note 26)	(3,740)	16,500
The fair value of consideration transfer:		
Cash payable (note 25)	35,241	
35,291,416 Consideration Shares at HK$2.54 each (note 29(ii))	89,640	124,881
Goodwill (note 18)		108,381

As at the date of these financial statements, the Group has not finalised the fair value assessments for intangible assets acquired from the acquisition. The relevant fair values of net assets acquired stated above are on a provisional basis.

The above consideration transferred includes a performance-based contingent consideration adjustment, which principally based on the acquiree's profit in a three-year period after acquisition. The adjustment will be settled after the end of the three-year period. During the current period, the actual results of Pinzheng Group 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 15 November 2010 to 31 December 2010	RMB1,600,000
Year ending 31 December 2011	RMB13,000,000
Year ending 31 December 2012	RMB16,000,000
Year ending 31 December 2013	RMB24,000,000

The fair value of other receivables amounted to HK$5,281,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The fair value of the shares issued was determined by reference to their quoted market price of HK$2.54 at the date of acquisition.

Notes to the Financial Statements

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31. BUSINESS ACQUISITIONS *(Continued)*

(d) *(Continued)*

Pinzheng Group has entered into co-operation agreements with a few lottery operators for distribution of the lottery tickets through the two aforementioned websites. In return, Pinzheng Group will earn commission income based on a certain percentage of total sales of lottery tickets. Hence, the directors consider websites are the most significant intangible assets and no other material assets and liabilities are identified.

The goodwill of HK$108,381,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group. The acquisition was made with the aims to provide the Group with immediate access to a significant pool of sophisticated single match game and football lottery fans in the PRC. These lottery fans could potentially become the Group's paperless lottery subscribers.

Since the acquisition date, Pinzheng Group has contributed HK$471,000 to the Group's profit. If the acquisition had occurred on 1 January 2010, the Group's profit would have been HK$14,326,000.

(e) On 31 December 2010, the Group acquired 70% of the voting equity instruments of 3GUU Mobile Entertainment Industial Co., Ltd. and its subsidiaries ("3GUU Group"). The 3GUU Group is principally engaged in the development and provision of mobile games of smart phones.

The provisional fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	HK$'000	HK$'000
Property, plant and equipment (note 16)	1,496	
Mobile game rights and platforms (note 20)	12,319	
Self developed mobile games (note 20)	2,792	
Bank balances and cash	31,910	
Trade receivables	22,533	
Other receivables, deposits and prepayments	812	
Trade payables	(6,607)	
Other payables and accruals	(5,015)	
Tax payable	(3,922)	
Deferred tax liabilities recognised upon fair value adjustments (note 26)	(349)	55,969
Non-controlling interests		(16,790)
		39,179
The provisional fair value of consideration transfer:		
Cash payable (note 25)	68,796	
68,600,000 Consideration Shares at HK$2.40 each (note 29(iii))	164,640	233,436
Goodwill (note 18)		194,257

Notes to the Financial Statements

For the year ended 31 December 2010

31. BUSINESS ACQUISITIONS *(Continued)*

(e) *(Continued)*

As at the date of these financial statements, the Group has not finalised the fair value assessments for intangible assets acquired from the acquisition. The relevant fair values of net assets acquired stated above are on a provisional basis.

The above consideration transferred includes a performance-based contingent consideration adjustment, which principally based on the acquiree's profit in a three-year period after acquisition. The adjustment will be settled after the end of the three-year period. During the current period, the actual results of 3GUU Group is not less than the profit target and the directors of the Company are of the opinion that the profit target of the remaining periods will be achievable, no adjustment to the purchases consideration is considered necessary.

Period involved	Profit Target
Period from 1 December 2010 to 31 December 2010	RMB1,670,000
Year ending 31 December 2011	RMB35,000,000
Year ending 31 December 2012	RMB50,000,000
Year ending 31 December 2013	RMB75,000,000

The fair value of trade receivables amounted to HK$22,533,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

3GUU Group has an innovative and experienced team in game designing and technology development. Most of the members in this team are specialists within the industry with experiences in the mobile communication industry and upholding the latest technology with a view to develop and operate interactive mobile game entertainment products. However, 3GUU Group has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset.

3GUU is a close cooperating business partner and quality content provider of China Mobile, one of the largest mobile network operator in the PRC, the 3GUU Group's mobile games have constantly ranked in first or second in the China Mobile's mobile game business. Its mobile game products have received various awards and recognitions from the industry. The mobile games self-developed by the 3GUU Group and purchased from the third parties are highly appreciated by the mobile game players. Hence, the directors identified mobile game rights and platforms, self developed mobile game as the key items of intangible assets and no other intangible asset appeared to be material.

The goodwill of HK$194,257,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

Notes to the Financial Statements

For the year ended 31 December 2010

31. BUSINESS ACQUISITIONS *(Continued)*

(e) *(Continued)*

The acquisition can lead the Group to have an in-depth integration of the business chain for the mobile game industry. One of the Group's subsidiaries, Dragon Joyce Group, is an international and professional mobile game developer and operator, which has established business relationships with Chinese-brand mobile handset manufacturers by pre-installing the mobile games into the mobile phones. Another subsidiary of the Group, OWX Group, is a telecommunication product developer which engages in developing, designing, and providing maintenance services of mobile communication products, is a leader of wireless telecommunication technology products provider in the PRC. This acquisition is a significant event of the Group to integrate the business chain of the mobile game industry, not only because of the considerable profits it would contribute to the Group, but the Group is able to benefit from the synergies of mobile game development, game operating channels, and access to the resources of mobile game users.

The Group has elected to measure the non-controlling interest in 3GUU Group at the proportionate share of the acquiree's identifiable net assets.

Since the acquisition date, 3GUU Group has contributed HK$204,000 and HK$49,000 to the Group's revenue and profit. If the acquisition had occurred an 1 January 2010, the Group's revenue and profit would have been increased by HK$74,476,000 and HK$17,766,000 respectively.

(f) Net cash outflow arising on business acquisitions:

	2010 HK$'000	2009 HK$'000
Cash consideration paid	**63,251**	40,000
Cash and cash equivalents acquired	**(32,063)**	(164)
	31,188	39,836

32. OPERATING LEASE ARRANGEMENTS

	Group		Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Minimum lease payments paid under operating leases during the year	**11,504**	7,184	**2,359**	2,471

Notes to the Financial Statements

For the year ended 31 December 2010

32. OPERATING LEASE ARRANGEMENTS *(Continued)*

At 31 December 2010, 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	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Within one year	**12,566**	5,718	**2,303**	824
In the second to fifth year, inclusive	**38,823**	5,506	**3,070**	–
	51,389	11,224	**5,373**	824

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 one to five years at fixed rental.

33. COMMITMENTS

	2010 HK$'000	2009 HK$'000
Contracted, but not provided for:		
– Acquisition of property, plant and equipment	**4,968**	967

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.

Notes to the Financial Statements

For the year ended 31 December 2010

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

Equity-settled share option scheme of the Company *(Continued)*

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

2010

	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the 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 4 November 2010	–	2,300,000	–	–	2,300,000	2.248	04/11/2010 to 03/11/2013
	7,000,000	2,300,000	(7,000,000)	–	2,300,000		
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
– on 4 November 2010	–	2,300,000	–	–	2,300,000	2.248	04/11/2010 to 03/11/2013
	10,600,000	2,300,000	(10,600,000)	–	2,300,000		
Sin Hendrick							
– on 2 March 2009	16,000,000	–	(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
– on 4 November 2010	–	17,000,000	–	–	17,000,000	2.248	04/11/2010 to 03/11/2013
	19,650,000	17,000,000	(16,000,000)	–	20,650,000		
Li Xiaohua (ii)							
– on 7 August 2009	2,000,000	–	–	–	2,000,000	1.173	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
– on 4 November 2010	–	2,000,000	–	–	2,000,000	2.248	04/11/2010 to 03/11/2013
	3,800,000	2,000,000	–	–	5,800,000		
Yue Hong Chu (i)							
– on 12 October 2009	1,500,000	–	–	–	1,500,000	1.680	12/10/2009 to 11/10/2014
	1,500,000	–	–	–	1,500,000		
	42,550,000	23,600,000	(33,600,000)	–	32,550,000		

Notes to the Financial Statements

For the year ended 31 December 2010

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	Lapsed during the year	At end of year	Exercise price HK$	Exercise period
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 4 November 2010	–	300,000	–	–	300,000	2.248	04/11/2010 to 03/11/2013
	605,000	300,000	(605,000)	–	300,000		
Wang Zhichen							
– on 4 November 2010	–	300,000	–	–	300,000	2.248	04/11/2010 to 03/11/2013
Wang Linan							
– on 4 November 2010	–	300,000	–	–	300,000	2.248	04/11/2010 to 03/11/2013
	605,000	900,000	(605,000)	–	900,000		
Options granted to employees/others							
on 26 March 2007	65,740,000	–	(65,400,000)	(340,000)	–	1.830	26/03/2007 to 25/03/2010
on 17 August 2007	3,370,000	–	(2,870,000)	(500,000)	–	1.870	17/08/2007 to 16/08/2010
on 31 October 2008	5,600,000	–	(2,500,000)	–	3,100,000	0.100	31/10/2008 to 31/10/2011
on 1 April 2009	5,000,000	–	(3,750,000)	–	1,250,000	0.153	01/04/2009 to 31/03/2012
on 7 August 2009	17,000,000	–	(13,476,000)	–	3,524,000	1.170	07/08/2009 to 06/08/2014
on 12 October 2009	13,050,000	–	(7,056,000)	–	5,994,000	1.680	12/10/2009 to 11/10/2014
on 4 November 2010	–	25,500,000	–	–	25,500,000	2.248	04/11/2010 to 03/11/2013
	109,760,000	25,500,000	(95,052,000)	(840,000)	39,368,000		
Total share options	152,915,000	50,000,000	(129,257,000)	(840,000)	72,818,000		

(i) resigned as a director on 7 April 2010

(ii) appointed as a director on 7 April 2010

Notes to the Financial Statements

For the year ended 31 December 2010

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

Equity-settled share option scheme of the Company *(Continued)*

2009

	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 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		
Sin Hendrick							
– on 2 March 2009	–	17,000,000	(1,000,000)	–	16,000,000	1.570	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		
Yuen Hong Chu							
– 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		
	31,200,000	22,150,000	(11,000,000)	(3,600,000)	38,750,000		

Notes to the Financial Statements

For the year ended 31 December 2010

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

Equity-settled share option scheme of the Company *(Continued)*

2009

	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 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
	3,605,000	–	(3,000,000)	–	605,000		

Notes to the Financial Statements

For the year ended 31 December 2010

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	3,370,000	–	–	–	3,370,000	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
	147,190,000	39,850,000	(73,080,000)	(400,000)	113,560,000		
Total share options	181,995,000	62,000,000	(87,080,000)	(4,000,000)	152,915,000		

On 4 November 2010, a total of 50,000,000 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$2.248 per share. The options may be exercisable during the period from 4 November 2010 to 3 November 2013.

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 Binomial model. The contractual life of the share options and expectations of early exercise are incorporated into the model.

Notes to the Financial Statements

For the year ended 31 December 2010

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

Equity-settled share option scheme of the Company *(Continued)*

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

	Granted on 4 November 2010
Fair value at grant date	HK$0.2723
Weighted average share price at grant date	HK$2.240
Exercise price	HK$2.248
Weighted average contractual life	1 year
Expected volatility	31.54%
Expected dividend rate	0.6%
Risk-free interest rate	0.25%

The fair value of the share options granted during the year was approximately HK$13,616,000 (2009: HK$10,849,000), all of which was recognised an equity-settled share-based payment expenses during the year.

In 2010, 840,000 (2009: 4,000,000) share options were cancelled. Accordingly, the entire share-based payment expenses of HK$221,000 (2009: HK$948,000) previously recognised in the share-based compensation reserve was released to retained profits/(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:

	Note	**2010 HK$'000**	2009 HK$'000
Service fee income earned from an associate, TMD 1	(i)	**462,519**	212,722
Service fee income earned from Sino Sky		**23,040**	–

(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.

Notes to the Financial Statements

For the year ended 31 December 2010

35. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Short term benefits	**12,723**	19,217
Share-based payment expense	**6,672**	2,823
	19,395	22,040

(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 2010 was mostly settled in March 2011.

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

The related companies include VODone Telemedia Co. Ltd. ("VODone Telemedia") and 北京彩視界信息技術有限公司 ("彩視界"), a 100% subsidiary of VODone Telemedia. Dr. Zhang Lijun is directors of VODone Telemedia, 彩視界 and the Company and has beneficial interests in the Company as at the end of reporting period. Details of the balance with the related companies are as follows:

	2010 HK$'000	2009 HK$'000
Balance at 1 January	**5,218**	4,491
Balance at 31 December	**17,973**	5,218
Maximum amount outstanding during the year	**17,973**	5,218

Amount due from VODone Telemedia and 彩視界 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 2009 and 2010.

Notes to the Financial Statements

For the year ended 31 December 2010

36. NOTES SUPPORTING STATEMENT OF CASH FLOWS

Significant non-cash transactions are as follows:

	2010 HK$'000	2009 HK$'000
Investment activities		
Equity consideration for acquisition of assets	(7,092)	–
Equity consideration for business acquisitions	(321,138)	–

37. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of equity attributable to owners of the Company only, comprising share capital and reserves.

38. 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.

Notes to the Financial Statements

For the year ended 31 December 2010

38. FINANCIAL RISK MANAGEMENT *(Continued)*

Credit risk *(Continued)*

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 30% (2009: 99%) and 74% (2009: 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 companies as at 31 December 2010 have been mostly settled in March 2011.

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

Liquidity risk

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

At the end of reporting period, all the Group's and the Company's financial liabilities based on contractual undiscounted cash flows are within one year or on demand.

Notes to the Financial Statements

For the year ended 31 December 2010

38. FINANCIAL RISK MANAGEMENT *(Continued)*

Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cost flows are substantially independent of changes in market interest rate.

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. 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.

Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of financial liabilities of the Group. At the end of reporting period, the Group is exposed to this risk through the business acquisitions attached to the consideration shares issued by the Company as disclosed in Note 29.

Sensitivity analysis

The sensitivity analysis on equity price risk includes the Group's financial liabilities, which fair value or future cash flows will fluctuate because of changes in the Company's own share price. If the Company's own share price had been 5% higher/lower, profit for the year would decrease/increase by HK$15,910,000 and the financial liabilities would increase/decrease by HK$15,910,000.

Notes to the Financial Statements

For the year ended 31 December 2010

39. 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 2010 and 2009 may be categorised as follows:

	2010 HK$'000	2009 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	785,892	438,607
Financial liabilities		
Financial liabilities of fair value through profit or loss:		
– Deferred consideration shares	318,206	–
Financial liabilities measured at amortised cost	137,459	14,025

The directors consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the financial statements approximate their fair values at the end of reporting period in view of their short term maturity. At 31 December, 2010, the deferred consideration shares (Note 29) is measured at fair value, which is based on Level 1 fair value measurement hierarchy as defined in HKFRS 7 – unadjusted quoted prices in active market for identical assets and liabilities.

40. EVENTS AFTER THE REPORTING PERIOD

On 3 January 2011, a total of 3,000,000 share options were granted to an employee, Mr. Li Hai, head of Corporate Finance and Investors Relations of the Group, to subscribe for ordinary shares at an exercise price of HK$2.43 per share. The options may be exercisable during the period from 3 January 2011 to 2 January 2014.

41. 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 29 March 2011.

Five Year 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 of the Group and reclassified as appropriate, is set out below.

	Year ended 31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
RESULTS					
Turnover					
Continuing operations	**767,591**	298,702	65,922	58,400	7,256
Discontinued operations	**–**	–	–	6,426	11,346
	767,591	298,702	65,922	64,826	18,602
Profit/(loss) for the year					
Continuing operations	**349,714**	109,883	(122,538)	(74,058)	(71,053)
Discontinued operations	**–**	–	–	11,872	(42,074)
	349,714	109,883	(122,538)	(62,186)	(113,127)
Attributable to:					
Owners of the Company	**325,428**	105,307	(121,004)	(59,680)	(110,274)
Non-controlling interests	**24,286**	4,576	(1,534)	(2,506)	(2,853)
	349,714	109,883	(122,538)	(62,186)	(113,127)

	As at 31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**1,185,518**	679,788	370,248	325,659	315,616
Current assets	**1,177,729**	591,476	311,968	690,470	222,784
Current liabilities	**(497,450)**	(21,962)	(66,390)	(16,887)	(121,261)
Net current assets	**680,279**	569,514	245,578	673,583	101,523
Non-current liabilities	**(14,942)**	(9,014)	(23)	(359,646)	(2,115)
Net assets	**1,850,855**	1,240,288	615,803	639,596	415,024