

第1视频®

VODONE.com

VODONE LIMITED

第一视频集团有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 82)



**2011**  
INTERIM  
REPORT

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## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

Dr. Zhang Lijun (*Chairman*)

Ms. Wang Chun

Mr. Sin, Hendrick

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu (alias Loke Hoi Lam)

Mr. Wang Zhichen

Mr. Wang Linan

### AUDIT COMMITTEE

Dr. Loke Yu (alias Loke Hoi Lam) (*Chairman*)

Mr. Wang Zhichen

Mr. Wang Linan

### NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

Dr. Zhang Lijun (*Chairman of Nomination Committee*)

Dr. Loke Yu (alias Loke Hoi Lam) (*Chairman of Remuneration Committee*)

Ms. Wang Chun

Mr. Wang Zhichen

Mr. Wang Linan

### COMPANY SECRETARY

Mr. Yan Man Sing, Frankie

### AUDITORS

BDO Limited

### PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited

The Bank of East Asia, Limited

The Hongkong and Shanghai Banking Corporation Limited

### BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke, Bermuda

### HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited

26th Floor

Tesbury Centre

28 Queen's Road East

Hong Kong

### REGISTERED OFFICE

Canon's Court, 22 Victoria Street

Hamilton HM12, Bermuda

### PRINCIPAL PLACE OF BUSINESS

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

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### STOCK CODE

00082

## Condensed Consolidated Statement of Comprehensive Income

The board of directors of VODone Limited (the “Company”) announces that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011 as follows:

		Six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	Notes		
Revenue	4	583,400	302,609
Cost of revenue		(91,101)	(66,355)
Gross profit		492,299	236,254
Other gains and losses	5	(20,958)	419
Selling and marketing expenses		(249,735)	(73,191)
Administrative expenses		(69,554)	(41,418)
Finance cost		(17)	—
Share of profit of associates		690	217
Profit before income tax	6	152,725	122,281
Income tax expense	7	(19,453)	(3,619)
<b>PROFIT FOR THE PERIOD</b>		<b>133,272</b>	<b>118,662</b>
Other comprehensive income:			
Exchange differences arising on translation		40,688	4,480
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>173,960</b>	<b>123,142</b>
Profit attributable to:			
Owners of the Company		111,395	107,282
Non-controlling interests		21,877	11,380
		133,272	118,662
Total comprehensive income attributable to:			
Owners of the Company		152,083	111,427
Non-controlling interests		21,877	11,715
		173,960	123,142
Earnings per share			
– Basic (HK Cents)	8	4.38	4.59
– Diluted (HK Cents)	8	4.36	4.51

# Condensed Consolidated Statement of Financial Position

		As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	48,777	50,559
Interest in associates	10	53,397	51,571
Goodwill	11	891,127	873,756
Intangible assets		275,711	203,393
Deposits for acquisition of property, plant and equipment		5,954	6,239
		<b>1,274,966</b>	<b>1,185,518</b>
<b>CURRENT ASSETS</b>			
Trade receivables	12	100,861	118,550
Other receivables, deposits and prepayments		465,314	400,899
Inventories	13	2,634	2,427
Amount due from an associate	19(d)	451,863	238,598
Amount due from related companies	19(c)	1,743	17,973
Bank balances and cash		342,602	399,282
		<b>1,365,017</b>	<b>1,177,729</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	14	14,208	14,524
Other payables and accruals		36,608	131,185
Deposits received		757	1,661
Deferred consideration shares		—	318,206
Taxation		22,079	31,874
		<b>73,652</b>	<b>497,450</b>

		As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
<b>NET CURRENT ASSETS</b>		<b>1,291,365</b>	<b>680,279</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,566,331</b>	<b>1,865,797</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		14,360	14,942
<b>NET ASSETS</b>		<b>2,551,971</b>	<b>1,850,855</b>
<b>EQUITY</b>			
Share capital	15	26,299	23,989
Shares to be issued		—	3,096
Reserves		2,408,264	1,728,239
Equity attributable to owners of the Company		2,434,563	1,755,324
Non-controlling interests		117,408	95,531
<b>TOTAL EQUITY</b>		<b>2,551,971</b>	<b>1,850,855</b>

# Condensed Consolidated Statement of Changes in Equity

## Attributable to owners of the Company

	Share capital HK\$'000	Shares to be issued HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share-based compensation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/(Accumulated losses) HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2010 (audited)	22,664	—	1,361,496	33,474	26,708	66,470	(317,332)	46,808	1,240,288
Profit or loss	—	—	—	—	—	—	107,282	11,380	118,662
Other comprehensive income	—	—	—	—	—	4,145	—	335	4,480
Total comprehensive income for the period	—	—	—	—	—	4,145	107,282	11,715	123,142
Shares issued on exercise of share options	1,043	—	187,851	—	(18,727)	—	—	—	170,167
Transfer of share premium to accumulative loss	—	—	(800,000)	460,503	—	—	339,497	—	—
Dividends declared	—	—	—	(14,216)	—	—	—	—	(14,216)
At 30 June 2010 (unaudited)	23,707	—	749,347	479,761	7,981	70,615	129,447	58,523	1,519,381

## Attributable to owners of the Company

	Share capital HK\$'000	Shares to be issued HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share-based compensation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2011 (audited)	23,989	3,096	771,111	479,761	18,647	110,906	347,814	95,531	1,850,855
Profit or loss	—	—	—	—	—	—	111,395	21,877	133,272
Other comprehensive income	—	—	—	—	—	40,688	—	—	40,688
Total comprehensive income for the period	—	—	—	—	—	40,688	111,395	21,877	173,960
Shares issued on exercise of share options	71	—	9,367	—	(1,597)	—	—	—	7,841
Placing of shares	900	—	202,500	—	—	—	—	—	203,400
Share issued for deferred consideration for:									
– Acquisition of assets	13	(3,096)	3,083	—	—	—	—	—	—
– Business acquisitions	1,326	—	341,725	—	—	—	—	—	343,051
Recognition of share-based payment expense	—	—	—	—	9,157	—	—	—	9,157
Dividends declared	—	—	—	—	—	—	(36,293)	—	(36,293)
At 30 June 2011 (unaudited)	26,299	—	1,327,786	479,761	26,207	151,594	422,916	117,408	2,551,971

# Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(47,437)	(55,792)
Net cash outflow from investing activities	(185,943)	(447)
Net cash inflow from financing activities	174,948	153,674
	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	(58,432)	97,435
Effect of changes in foreign exchange rate	1,752	502
Cash and cash equivalent at beginning of period	399,282	339,059
	<hr/>	<hr/>
Cash and cash equivalent at end of period	342,602	436,996
	<hr/>	<hr/>



## 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

The condensed consolidated financial statements should be read in conjunction with the Group’s 2010 annual financial statements. The accounting policies of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2010.

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

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

In the current period, the Group has applied, for the first time, the new and revised standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA, which are effective for the Group’s financial year beginning on 1 January 2011.

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

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective in these financial statements.

HKFRS 1 Amendment	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 Amendments	Disclosures — Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>1</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>3</sup>
HKAS 12 Amendments	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (2011)	Employee Benefits <sup>4</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>4</sup>
HKAS 28 (2011)	Investments in Associates and Joint Ventures <sup>4</sup>

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

- 1 Effective for annual periods beginning on or after 1 July 2011
- 2 Effective for annual periods beginning on or after 1 January 2012
- 3 Effective for annual periods beginning on or after 1 July 2012
- 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. SEGMENT REPORTING

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

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

- Tele-media business
- Lottery-related business
- Mobile 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 Financial Statements

## 3. SEGMENT REPORTING (Continued)

### (A) BUSINESS SEGMENTS

	Tele-media business Six months ended 30 June		Lottery-related business Six months ended 30 June		Mobile games business Six months ended 30 June		Total Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Revenue from external customers	293,678	164,692	132,532	85,542	157,190	52,375	583,400	302,609
Reportable segment profit	105,542	46,586	70,052	51,614	75,372	36,568	250,966	134,768
Interest income	43	411	—	—	392	7	435	418
Depreciation and amortisation	(5,004)	(3,485)	(3,874)	(290)	(7,364)	(3,942)	(16,242)	(7,717)
Income tax expenses	(5,803)	(3,619)	(5,310)	—	(8,340)	—	(19,453)	(3,619)
	As at 30 June 2011	As at 31 December 2010	As at 30 June 2011	As at 31 December 2010	As at 30 June 2011	As at 31 December 2010	As at 30 June 2011	As at 31 December 2010
Additions to non-current assets	790	53,360	82,852	138,026	1,905	306,253	85,547	497,639
Reportable segment assets	1,197,269	814,840	426,912	567,161	829,937	763,500	2,454,118	2,145,501
Reportable segment liabilities	9,508	27,776	13,992	14,309	48,528	44,413	72,028	86,498

### (B) RECONCILIATION OF REPORTABLE SEGMENT PROFIT, ASSETS AND LIABILITIES

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Profit before income tax		
Reportable segment profit	250,966	134,768
Other gains and losses	(24,845)	1
Share of profit of an associate	690	217
Unallocated corporate expenses	(74,086)	(12,705)
Consolidated profit before income tax	152,725	122,281

### 3. SEGMENT REPORTING (Continued)

#### (B) RECONCILIATION OF REPORTABLE SEGMENT PROFIT, ASSETS AND LIABILITIES (Continued)

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
<b>Assets</b>		
Reportable segment assets	2,454,118	2,145,501
Interest in an associate	53,397	51,571
Bank balances and cash	99,872	163,103
Unallocated corporate assets	32,596	3,072
Consolidated total assets	<u>2,639,983</u>	<u>2,363,247</u>
<b>Liabilities</b>		
Reportable segment liabilities	72,028	86,498
Other payables and accruals	15,963	107,561
Deferred consideration shares	—	318,206
Unallocated corporate liabilities	21	127
Consolidated total liabilities	<u>88,012</u>	<u>512,392</u>

#### (C) GEOGRAPHICAL INFORMATION

During 2011 and 2010, the Group's operations and non-current assets are situated in the PRC in which most of its revenue was derived.

#### (D) MAJOR CUSTOMERS

As disclosed in note 19(a), the Group's associate is the only major customer with whom transactions have exceeded 10% of the Group's revenues. Revenues from the Group's associate in the tele-media segment amounted to approximately HK\$293,268,000 (2010: HK\$132,874,000) and revenues from a lottery-related segment amounted to approximately HK\$108,636,000 (2010: HK\$39,430,000) respectively.

## 4. REVENUE

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

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue		
Tele-media business:		
– Advertising and services income	293,678	164,692
Lottery-related business:		
– Service and advertising income	132,532	85,542
Mobile games business:		
– Sale of mobile games and handset design business	157,190	52,375
	<u>583,400</u>	<u>302,609</u>

## 5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest income	436	419
Fair value loss on deferred consideration shares	(24,845)	—
Net foreign exchange losses	(83)	—
Others	3,534	—
	<u>(20,958)</u>	<u>419</u>

## 6. PROFIT BEFORE INCOME TAX

The Group's profit from operating activities is arrived at after charging:

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	4,278	4,278
Amortisation of intangible assets	11,964	3,439
Cost of inventories sold	11,404	—
Auditor's remuneration	50	102
Staff costs (excluding directors' remuneration)		
Salaries and wages	40,481	16,460
Pension fund contributions	6,766	2,734
Share-based payments	5,620	—
	<u>52,867</u>	<u>19,194</u>

## 7. INCOME TAX EXPENSE

Taxation in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Current tax — the PRC		
– provision for the period	18,716	3,619
Current tax — Hong Kong Profits Tax		
– provision for the period	1,319	—
Deferred Taxation		
– attributable to the reversal of temporary differences	(582)	—
	<u>19,453</u>	<u>3,619</u>

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

## 8. EARNINGS PER SHARE

	Six months ended 30 June	
	2011 (Unaudited) HK cents	2010 (Unaudited) HK cents
Basic earnings per share	4.38	4.59
Diluted earnings per share	4.36	4.51

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

### PROFIT

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Profit for the period attributable to owners of the Company, used in the basic and diluted earnings of share calculation	111,395	107,282
<b>Number of shares</b>		
Weighted average number of ordinary shares (basic)	2,545,110,675	2,338,925,554
Effect of dilution – share options	9,915,134	42,050,009
Weight average number of ordinary shares for basic earnings per share, adjusted for the effect of dilution	2,555,025,809	2,380,975,563

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$1,812,000 (2010: HK\$1,719,000).

## 10. INTEREST IN ASSOCIATES

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Share of net liabilities	(4,878)	(5,568)
Goodwill	58,275	57,139
	<u>53,397</u>	<u>51,571</u>

Particulars of the Group's associates are as follows:

Name of company	Place of incorporation and operation	Proportion of ownership		Principal activity
		Ownership Interest held by the Group	voting power held by the Company	
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 Financial Statements

## 10. INTEREST IN ASSOCIATES (Continued)

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

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Total assets	367,507	253,133
Total liabilities	(377,463)	(264,496)
Net liabilities	<u>(9,956)</u>	<u>(11,363)</u>
Group's share of the associates' net liabilities	<u>(4,878)</u>	<u>(5,568)</u>
	<b>Six months ended 30 June</b>	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue	<u>311,890</u>	<u>133,808</u>
Profit for the period	<u>1,408</u>	<u>443</u>
Group's share of the associates' profit for the period	<u>690</u>	<u>217</u>

## 11. GOODWILL

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Balance at beginning of period/year	873,756	474,314
Acquisition of subsidiaries	—	381,102
Exchange adjustments	<u>17,371</u>	<u>18,340</u>
Balance at end of period/year	<u>891,127</u>	<u>873,756</u>

## 11. GOODWILL (Continued)

Goodwill is allocated to the Group's cash generating units ("CGUs") identified to country of operation and business segment. The carrying amounts as at 30 June 2011 were related to the Group's tele-media service business and mobile games business in the PRC.

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

## 12. TRADE RECEIVABLES

An aging analysis of the trade receivables as at the end of reporting date, based on invoice date is as follows:

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Within 1 month	65,895	92,669
2 to 3 months	24,448	22,192
4 to 6 months	9,544	2,492
7 to 12 months	877	1,132
Over 1 year	97	65
	<hr/>	<hr/>
	100,861	118,550
	<hr/>	<hr/>

The credit period of the Group's trade receivables range from 30 days to 60 days.

## 13. INVENTORIES

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Raw materials	2,128	2,125
Work-in-progress	395	299
Finished goods	111	3
	<hr/>	<hr/>
	2,634	2,427
	<hr/>	<hr/>

# Notes to Financial Statements

## 14. TRADE PAYABLES

An aging analysis of the trade payables as at the end of reporting date, based on invoice date is as follows:

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Within 1 month	12,668	11,198
2 to 3 months	1,410	3,197
More than 3 months	130	129
	<u>14,208</u>	<u>14,524</u>

## 15. SHARE CAPITAL

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
<i>Authorised:</i>		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i> 2,629,934,784 (31 December 2010: 2,398,864,996) ordinary shares of HK\$0.01 each	<u>26,299</u>	<u>23,989</u>

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

	Number of ordinary shares	Share capital HK\$'000
At 1 January 2010	2,266,427,996	22,664
Shares issued on exercise of share options	129,257,000	1,293
Shares issued on acquisition of assets	3,180,000	32
	<u>2,398,864,996</u>	<u>23,989</u>
At 31 December 2010	2,398,864,996	23,989
Shares issued on exercise of share options	7,114,000	71
Placing of shares	90,000,000	900
Share issued for deferred consideration for:		
- Business acquisition	132,585,788	1,326
- Acquisition of assets	1,370,000	13
	<u>2,629,934,784</u>	<u>26,299</u>
At 30 June 2011	2,629,934,784	26,299

## 16. OPERATING LEASE ARRANGEMENTS

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Minimum lease payments paid under operating leases	<u>9,760</u>	<u>4,243</u>

At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
	Within one year	16,067
In the second to fifth years, inclusive	<u>45,823</u>	<u>38,823</u>
	<u>61,890</u>	<u>51,389</u>

## 17. COMMITMENTS

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
	Contracted, but not provided for: – Acquisition of property, plant and equipment	<u>5,620</u>

## 18. SHARE-BASED PAYMENT TRANSACTIONS

### EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

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

During the six months ended 30 June 2011, a total of 7,114,000 share options were exercised by the participants. The proceeds were used as general working capital of the Group.

## 19. 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 period:

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Consultancy fee income earned from the associate, TMD1	401,904	172,304

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

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Short term benefits	11,954	6,224
Share-based payments	3,537	—
	<u>15,491</u>	<u>6,224</u>

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

## 20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the Audit Committee and approved and authorised for issue by the board of Directors on 25 August 2011.

## OPERATING RESULTS

Turnover of the Group for the six months ended 30 June 2011 amounted to HK\$583,400,000, representing an increase of around 93% as compared with the corresponding period last year. Profit attributable to the owners of the Company was HK\$111,395,000, an increase of 3.8% from the last corresponding period. If excluding an one-off fair value loss on deferred consideration shares of HK\$24,845,000 and an one-off share-based payment expenses of HK\$9,157,000, total comprehensive income attributable to owners of the Company amounted to HK\$186.1 million, an increase of 67% over last year.

One-off fair value loss on deferred consideration shares and one-off share-based payment expenses are both non-recurring and one-off expenses. One-off fair value loss on deferred consideration shares was incurred merely due to the issue of the relevant consideration shares for the sake of acquiring 3GUU Group, the handset design assets of OWX Group (一高集團) and the business of Pinzheng Group (品正集團) at the end of 2010, while the relevant Consideration Shares were not formally issued yet at the end of the year and deferred payment was required. Pursuant to the HKFRSs, those deferred consideration shares issued by the Company conform to the definition of financial liabilities; therefore, their fair value is required to be re-measured upon the formal issuance of the Shares. The difference between the new value and the book value at the beginning of the Reporting Period is required to be recognized through the profit and loss of the current period, resulting in the relevant non-cash and non-operating losses. Therefore, the one-off fair value loss on deferred consideration shares in the profit and loss of the current period was actually attributable to the market value of such consideration shares (i.e. the Company's share price), which was significantly higher upon the formal issuance of the Shares than that at the beginning of the Reporting Period. However, with the completion of the formal issuance of the consideration shares in the first half of the year and the final measurement of the difference between final values, the Company's results in the second half of the year and thereafter will no longer be affected by the changes in the fair value of the consideration shares issued as a result of the relevant acquisitions.

In addition, net profit attributable to owners of the Company for the period also included non-cash expenses amortization of intangible assets totaling HK\$11,964,000 (six months ended 30 June 2010: HK\$3,439,000).

Furthermore, the increase in sales and marketing expenses in the first half of the year was mainly due to the launch of a series of advertisements for our new website weibo business and for the promotion of our own brands. The directors believe that the launch of such advertisements will not only effectively strengthen and consolidate the Company's position in relevant markets, but also provide more new opportunities for business development of the Group. However, the Company will continue to implement its consistent policy of strict control of expenses while considering the need for business and marketing, in order to achieve maximum efficiency with minimum cost.

## BUSINESS REVIEW AND DEVELOPMENT

### *Tele-media Business*

#### The VODone News Portal

2011 was the "expansion year" for the tele-media business of VODone. The news portal of VODone ([www.v1.cn](http://www.v1.cn)) is currently the largest mini-video news portal in China and has successfully become one of the Top 3 news portals in China, as is reflected in its ALEXA ranking which has reached a new height.

# Management Discussion and Analysis

Going through the historical developments of the VODone news portal, and with continuous exploration and implementation, we believe the mini-video news format has been and in the foreseeable future will be our mainstream development path. During the first half of 2011, both the power of influence and the rating of the VODone news portal increased steadily. On such basis, video websites in future will account for a larger share in advertising. Besides, as more progress is achieved in “Triple Networks Convergence” and 3G technology, the creative content of the VODone news portal will attract more audience.

The video programmes of the VODone News portal are varies and strongly interactive which includes commentary programmes with internet features (such as Words of Monk Kong, Tianping Military Review, Ambassador online, Inside view on outside news) and interview programmes, etc.

## Internet TV

The internet TV of VODone currently has 44 special guests commentators and approximately 31 slots of daily broadcast programmes. Since the commencement of the broadcasting, the programmes have been presented by live telecast and interactions between guests and audience which are well-received by audience and the general public. As the programmes had outstanding highlights, and commentaries from guests were detailed and straight to the point with eagerness to express public opinions, they were re-broadcasted by major media, websites and broadcasting platforms. Some media even had such comments: “Under the current social conditions, only programmes of VODone can bring a sense of reality to the society. The programmes are in line with the social conditions, true and representative. That reflects their persistence and attitude.”



## VODone Broadcasting Union System (VODone BUS)

VODone BUS, an advertising platform of VODone, has been covered by more application softwares and gained reception of more advertisers since its expansion and upgrading from Internet terminal to also mobile terminals in the second half of 2010.

Since its inception in 2005, VODone BUS has been leading the domestic Internet advertising industry. Amid the rapid development of the Internet and the ever-increasing customer demands in China, we have kept adjusting our development strategies. After being expanded to mobile terminal, VODone BUS mainly consists of two products: VBUS and MOBUS. VBUS is still engaged in traditional Internet advertising business while MOBUS is mainly engaged in the emerging mobile Internet advertising.

Covering a wider range of high-ended populations, the upgraded VODone BUS has won the trust of advertisers for its ability to lock up targeted audience more precisely, safely and efficiently, translate mobile traffic into advertising revenue, and achieve highly effective brand and product marketing. As one of the main businesses of VODone, VODone BUS will form a highly efficient linkage with VODone's other businesses such as VODone's mobile games, group buying and paperless lottery services.

## “Line 0 of Metro” mobile radio station

The audience of “Line 0 of Metro” mainly consists of a higher cultural group of white collars in the city at the age of 18 to 35.

“Line 0 of Metro” commenced trial broadcast on 3 July 2010 and was officially launched on the internet for global broadcast on 8 December in the same year. Since its inception, “Line 0 of metro” already has several hundred thousands of loyal active audience, and the downloading volume of the “Line 0 of Metro” mobile application by users has exceeded 5 million. On 24 March 2011, “Line 0 of Metro” won the “2011 Information Summit Grand Award”, and was the only nominee in the “electronic entertainment and games” sector in the PRC region to compete for the biennial “World Information Summit Grand Award”. Meanwhile, “Line 0 of Metro” continued to optimize mobile end user functions by launching new items on the basis of gradually upgrading the standards of existing programmes. Currently, the voice of “Line 0 of Metro” can be heard in any corner of the world.



## V1 Group Buying

V1 Group Buying is one of the few websites for group buying backed by a listed company. Being the only platform for electronic commerce under VODone, V1 Group Buying has multiple advantages in the areas of technology, flow volume and quality. V1 Group Buying is positioned to provide overall solutions for dining, drinking and entertainment to the trendy groups in the city at the age of 20-45.

## Lottery Weibo

Since Diyicai launched the 3-in-1 blog comprising the new media, internet community and lottery for lottery players on 22 March 2011, the functions of the lottery weibo for lottery players have been improved and optimized continuously. The lottery weibo has become a leading portal in four major service areas in the lottery industry as follows:

Firstly, the lottery weibo for lottery players provides prompt information on lottery results of all categories nationwide. It features a professional, comprehensive, compact and efficient platform for Diyicai, and attains full coverage of both sports lotteries and welfare lotteries, including sports lotteries such as Chaojidaletou (超級大樂透), Qixingcai (七星彩), Pailiesan (排列三) and Pailiewu (排列五); welfare lotteries such as Shuangseiqiu (隻色球), Qilecai (七樂彩) and Fucai 3D (福彩3D); match



# Management Discussion and Analysis

game bettings such as soccer bet, basketball bet, single soccer match betting and Shengfurenjiu (勝負任九); as well as various high frequency lotteries. The blog announces the lottery results of “sports number lottery results” and “soccer lottery results express” at the earliest instance so that lottery players are able to obtain information on the lottery results immediately for making informed decisions.

Secondly, the lottery weibo displays important information about various sports lottery centers and welfare lottery centers. Official weibo of sports lottery centers and welfare lottery centers in many provinces and cities are linked in Diyicai, including Heilongjiang Welfare Lottery Centre, Beijing Sports Lottery Center, Chongqing Welfare Lottery Center, Beijing Welfare Lottery Center, Shandong Sports Lottery Center and Jiangsu Welfare Lottery Center, etc. Lottery players are able to view changes in lottery weibo of different places, updated information on lotteries, etc. through the lottery weibo to obtain speedy and concise information on a timely basis.

Thirdly, public opinions can be fully reflected to lottery officials. Each of the lottery head officials of various departments at “Diyicai” is assigned a real name account. Lottery players can send private letters to the heads through the lottery weibo to express their views and proposals. This is the first nationwide system offering close interaction with lottery players and lottery officials and allowed Diyicai to collect full and accurate public opinions to obtain a deeper understanding of the overall market and facilitate a better development of the lottery business.

Fourthly, winning notifications will be sent to the users. No matter where the user is located, as long as his mobile phone has been installed the Diyicai Application, the winning notification will be sent to the mobile phone of the winning user at anytime and in any place. The users do not need to pay special attention to lottery television programs and lottery websites but are able to obtain the lottery results easily through their smartphone. This is an innovation in the lottery business.



## Lottery Related Business

### Diyicai integrating triple network

奉獻公益 樂善人生

The triple integration of digital television, Internet and telecommunication networks has formed a widely adaptable, maintenance easy, low cost and high speed broadband multimedia-based platform that enables rapid development of lottery industry. With a unified system and database and compatible technology, interconnection can provide seamless coverage on the three networks. Inter-penetration and inter-exchange at the business level and the tendency of unified application at the application level enable the provision to general lottery players with more diversified, multimedia-enabled, personalized and convenient lottery betting services.

In addition, the intelligent and comprehensive paperless betting systems has gained more users and higher efficiency for Diyicai. The smart betting system has the following features: supporting multi-terminal concurrent bettings and providing tips on the most popular and least popular bets, smart tips for consecutive bets, instant betting analysis, interactive information sharing with lottery weibo, and advance alerts for improbable bets. These features would distinguish the lottery betting platform of Diyicai from other platforms in the industry, and are conducive to attracting more customers.

With the leading functions of the paperless betting systems, and under the complementary support of lottery information, mobile phone lottery betting system, physical shops and new media lottery weibo of Diyicai, full range coverage of all welfare lotteries and sports lotteries were realized, making Diyicai become one of the lottery operation platforms with the fullest range of lotteries and the strongest service and technical support within the industry.

### Improved channels for lottery sales

In 2010, apart from co-operating with manufacturers of mobile phone software and branded mobile phone and mobile terminal operators, such as Longcheer (龍旗), Cmedia (台灣驛訊), Hangzhou SKY-MOBI (杭州斯凱), Nokia (諾基亞) and Lenovo-Mobile (聯想移動), etc. and large financial institutions such as banks, our own lottery sales channels have also established long-term stable strategic partnerships with other media platforms, various branded manufacturers and advertisers in order to provide more convenient lottery betting service to lottery players.

Moreover, the technology of paperless betting platform utilized by Diyicai fully reflected the advantages of safety, confidentiality, fast and convenience, as well as well pre-set system of the self-service style of betting, and realized the seamless connectivity with the lottery sales master system.

The branding and professionalism of Diyicai were well recognized by lottery players and advertisers, and the trustworthiness of the brand was confirmed and verified by the lottery officials. The advances in technology, product and channels would help promoting the lottery business of Diyicai to a higher new level and create more robust results!

According to the statistics of the Ministry of Finance of the PRC, for the first half of 2011, the total sales of lottery in the country amounted to RMB101.144 billion, representing an increase of 31% or RMB23.908 billion as compared to the first half of 2010. Out of which, RMB58.990 billion were contributed from welfare lotteries, representing an increase of 32% or RMB14.287 billion as compared to the first half of 2010; RMB42.154 billion were contributed from sports lottery, representing an increase of 29.6% or RMB9.621 billion as compared to the first half of 2010. The total sales of lottery in China in 2010 amounted to RMB166.248 billion which comprised sales of welfare lottery of RMB96.802 billion and sales of sports lottery of RMB69.446 billion. It is generally believed in the industry that a strong growth will be maintained in the second half of this year.

### ***Mobile Games Business***

#### **China market**

According to the data of "Quarterly Monitoring of China's Mobile Gaming Market in the Second Quarter of 2011" lately released by Enfodesk, an industry database, the number of mobile games players in China has exceeded 150 million.

#### **Business positioning**

VODone mobile game subsidiary - CMGE positions itself as an international developer and operator of sophisticated mobile games. In terms of products, our positioning strategy is "Based in China, to grow globally". Our mobile games business focuses on the three aspects of mobile games, namely, single player games, social games and games SNS platform. In terms of technologies and teams, we possess core game development technologies for all major feature phone chip platforms and smartphone operating systems, with experienced teams for independent planning, art design, R&D and operations. Besides, we have established strong and solid marketing channels for smartphone and feature phones games. We have also co-operated closely with mobile operators and major application stores in China to promote our products.

#### **Feature phone games**

VODone's feature phone games business branded 'KKFun' is a national high-tech enterprise. So far, KKFun has over 100 self-developed and operated single player mobile games for feature phones, covering seven major languages in the world. It has closely collaborated with renowned institutions and enterprises and constructed a mobile game downloading platform named "FUNBOX" for players to download. The platform owns independent intellectual rights and brand names at all times. So far, we have pre-installed mobile games on more than 40 million feature phones.

We have extended our reach to global markets and established good cooperative relations with a number of telecommunication operators and local telecommunications services companies in regions such as East Asia, Southeast Asia, Europe, Latin America and Africa. We cooperate with more than 500 mobile phone solution providers and mobile handset manufacturers to jointly develop global mobile games markets and promote our global strategy for mobile games.



Regarding social games platform, we launched a self-developed game platform named “Douwan”, a multiplayer platform aiming at casual interactive games market and avoiding the problem of long development cycle and short life cycle of single networked games. On the basis of Douwan multiplayer game platform, we continue to launch various types of Interactive games for multiplayer, and at the same time allow players to share and exchange their experience.

### Smartphone games

After 3GUU/Yingzheng (盈正) has become a member of VODone, our smartphone game business has gained further development. 3GUU/Yingzheng is founded by industry elites engaged in R & D and with extensive experience in operation for many years. It is a rapidly growing high-tech company focusing on development and operation of smartphone games.

With focus on enriching product contents, we create attractive smartphone games and single player games that can be downloaded with iPhone and Android platforms. We operate the mobile games business with an intensive, large-scale and platform-based principle.

We have a professional team with strong sense of innovation and extensive experience in game planning and technology development. Most of us are technical elites with extensive experience in the mobile communications industry. We can master the most advanced technology of the industry to jointly engage in the development and operation of interactive and entertaining mobile games products. Besides, we are close business partners with the mobile game business division of China Mobile and are granted the title “High-quality Games Content Provider”. Our mobile games business has been ranked the first and the second in mobile network games of China Mobile. The “Bubble Journey to the West 泡泡西游”, a brand new game launched in May this year, has received good market response. Within one month after its launch, its user monthly spending consumption has exceeded RMB100.

## Management Discussion and Analysis

We have a large and diversified portfolio of feature phone games and smartphone games. As of 30 June, 2011, our portfolio included 113 feature phone games and 151 smartphone games. For the six months ended 30 June, 2011, we had total paying users accounts of approximately 20.3 million, of which 17.8 million is for feature phone games and 2.5 million is for smartphone games.



According to “China’s Mobile Game Market Research Report for the first half of 2011” prepared by Analysys International, CMGE has covered the whole industrial chain of mobile games, with the size of revenue from game development accounting for 18.3% of market shares in 2010. It has become the largest professional mobile game developer in China, and currently has a comprehensive product coverage over feature phones and smartphones as well as single player games and online games.

### Handset design

The rise of smartphones has prompted the replacement needs of mobile phones of the Chinese people and brought new business opportunities for China’s mobile phone markets. Our mobile phone design department has accumulated development and design experiences of feature phones and smartphones. As such, following market development trends, we will continue to put appropriate resources to bring about synergies for our mobile games business.

### Linfo

“Linfo” ([www.linxun.com](http://www.linxun.com)), a software of new mobile internet community, which was jointly developed and operated by VODone Group and France Telecom of Beijing, commenced operation in May 2010. It mainly targets at smartphone users. Currently, the software supports HTC, Nokia, Samsung, Motorola and Sony Ericsson mobile phones which operate on four major operating systems i.e. iPhone, Android, Symbian and Window Mobile. Linfo has become one of the most comprehensive mobile internet community in China with full legal qualification.

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

Linfo has successfully created a one-stop mobile application platform which combines maps, mobile phones, information and social network services seamlessly. So far, the number of registered members of Linfo has exceeded 5 million and the number is still growing rapidly. The level of recognition and awareness of Linfo by the general public are doubtless, and Linfo has been integrated into the lives of a lot of Chinese people.

### **Awards:**

#### *Awards and certificates obtained by VODone Group in 2011.*

- Our Chairman Dr. Zhang Lijun was awarded "Harmonious China Top Ten Most Influential People" jointly organized by The Association of China Economic Press (中國經濟報刊協會), Famous Brand Times (名牌時報社), Association for Harmonious Development of China (中華民族和諧發展促進會), Chinese Magazine of Influential People (影響力人物雜誌社), Assessment Committee of Harmonious China Annual Influential People's Award (和諧中國年度影響力人物徵評活動組委會).
- The VODone Program, "Blog in Expo", was awarded the Best Cultural Event Award by the State Council Information Office.
- The VODone Program, "Views of People from the PRC and Taiwan on Expo-2010 Shanghai World Expo", was awarded the Best Theme Award by the State Council Information Office.
- Awarded the Best Internet Website Content Production Prize jointly by Beijing Internet Publicity Management Office and Beijing Association of Online Media.
- Awarded the Special Contribution Award by China Association of Social Workers.
- Awarded the Outstanding Organization Award in the Sixth SMS Competition jointly organized by Beijing Association of Online Media, Radio Beijing Corporation and Beijing TV.
- Recognized as a Strategic Partner during the Ten Series of Activities organized by Internet Association of China in 2011.
- The VoDone Mobile Radio Station, "Line O of Metro", was awarded the Best Electronic Entertainment and Gaming Site Award at the regional trial in China of the World Summit Award 2011.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### BUSINESS SEGMENTS

	Tele-media business		Lottery-related business		Mobile games business		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Revenue from external customers	293,678	164,692	132,532	85,542	157,190	52,375	583,400	302,609
Reportable segment profit	105,542	46,586	70,052	51,614	75,372	36,568	250,966	134,768

### TELE-MEDIA BUSINESS

The tele-media business contributed a turnover of HK\$293,678,000 to the Group for the six months ended 30 June 2011, representing an increase of around 78% as compared with HK\$164,692,000 for the corresponding period last year. Segment profit was increased to HK\$105,542,000 for the period, representing an increase of around 126% over last year.

### LOTTERY RELATED BUSINESS

As of 30 June 2011, the Group recorded a lottery-related income of HK\$132,532,000, representing an increase of around 55% as compared with the corresponding period last year. Profit of the segment was increased 36% to HK\$70,052,000 when compared with last year's corresponding period.

### MOBILE GAMES BUSINESS

For the first half of 2011, revenue significantly increased to HK\$157,190,000, representing an increase of 200% as compared with the corresponding period in 2010. The increase in profit to HK\$75,372,000 was in part due to the synergies arising from acquisition of the handset design assets of OWX Group (一高集團) and the smartphone games businesses of 3GUU Group at the end of 2010.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had HK\$342,602,000 cash and cash equivalents (31 December 2010: HK\$399,282,000). Working capital was HK\$1,291,365,000 as compared with the working capital of HK\$680,279,000 at the end of last year. The Group did not have any bank borrowings as at 30 June 2011 and 31 December 2010. Since the Group generates most of the revenue and incurs most of the costs in Renminbi, there was no material foreign exchange risk. As at 30 June 2011, the Group's current ratio was 18.5 (31 December 2010: 2.4). Taking into account the financial resources available, the Directors are of the view that the Group will have sufficient working capital for its present requirement.

## CHARGES AND CONTINGENT LIABILITIES

As at 30 June 2011 and 31 December 2010, the Group had no charges on its assets and no material contingent liabilities.

## CAPITAL STRUCTURE

As at 30 June 2011, the Group had total assets of HK\$2,639,983,000 (31 December 2010: HK\$2,363,247,000) which were financed by shareholders' funds of HK\$2,434,563,000 (31 December 2010: HK\$1,755,324,000), total liabilities of HK\$88,012,000 (31 December 2010: HK\$512,392,000) and minority interests of HK\$117,408,000 (31 December 2010: HK\$95,531,000).

On 29 March 2011, the Company entered into Subscription Agreement with China Life Franklin Asset Management for the subscription of 80,000,000 new Shares and Subscription Agreement with Evenstar and Geminis for the subscription of a total of 10,000,000 new Shares, each at the Subscription Price of HK\$2.26 per Subscription Share. The gross proceeds from the Subscription amounts to HK\$203.4 million. The Directors believe that the Subscription can provide an opportunity to broaden the Shareholder base and strengthen the capital base and financial position of the Company for the Group's future business developments.

## EMPLOYEES REMUNERATION AND BENEFITS

As at 30 June 2011, the Group had 652 employees in the PRC (Beijing and Guangdong) and Hong Kong. They include the management and the employees in administration, production and sales personnel. The Group regularly reviewed its professional team members and will expand its management team whenever necessary.

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

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

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2011.



# Disclosure of Interests in the Share Capital of the Company

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

As at 30 June 2011, 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:

### LONG POSITIONS IN THE ORDINARY SHARES AND UNDERLYING SHARES OF THE COMPANY:

Name of director	Capacity	Number of ordinary shares held	% of total issued share capital	Number of underlying shares in respect of the share option granted	% of total issued share capital
Zhang Lijun	Beneficial owner/Interest of spouse	337,467,376 (Note 1)	12.83%	5,070,000 (Note 2)	0.19%
Wang Chun	Beneficial owner/Interest of spouse	337,467,376 (Note 3)	12.83%	5,070,000 (Notes 4)	0.19%
Sin, Hendrick	Beneficial owner	19,500,000	0.74%	29,000,000	1.10%
Li Xiaohua (Note 5)	Beneficial owner	760,000	0.03%	3,755,000	0.14%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	—	—	300,000	0.01%
Wang Linan	Beneficial owner	1,000,000	0.04%	300,000	0.01%
Wang Zhichen	Beneficial owner	1,000,000	0.04%	300,000	0.01%

Note 1: Of these 337,467,376 shares, 322,967,376 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: These 5,070,000 shares option, 2,535,000 shares options are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 2,535,000 shares option through the interest of his spouse, Ms. Wang Chun.

Note 3: Of these 337,467,376 shares, 14,500,000 shares are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 322,967,376 shares through the interest of her spouse, Dr. Zhang Lijun.

Note 4: These 5,070,000 shares option, 2,535,000 shares option are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 2,535,000 shares option through the interest of her spouse, Dr. Zhang Lijun.

Note 5: Resigned on 31 August 2011.

Save as disclosed herein, as at 30 June, 2011, none of the directors or the chief executive of the Company and their associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2011, 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	162,998,000	6.20%

# Share Option Scheme

## SHARE OPTION SCHEME OF THE COMPANY

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

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

	At 1 January 2011	Granted during the period (1 Jan - 30 Jun 2011)	Exercised during the period (1 Jan - 30 Jun 2011)	At 30 June 2011	Exercise price HK\$	Exercise period
<b>Options granted to executive directors</b>						
<b>Zhang Lijun</b>						
- on 4 November 2010	2,300,000	-	-	2,300,000	2.248	04/11/2010 to 03/11/2013
- on 30 March 2011	-	235,000	-	235,000	2.500	30/03/2011 to 29/03/2014
	<u>2,300,000</u>	<u>235,000</u>	<u>-</u>	<u>2,535,000</u>		
<b>Wang Chun</b>						
- on 4 November 2010	2,300,000	-	-	2,300,000	2.248	04/11/2010 to 03/11/2013
- on 30 March 2011	-	235,000	-	235,000	2.500	30/03/2011 to 29/03/2014
	<u>2,300,000</u>	<u>235,000</u>	<u>-</u>	<u>2,535,000</u>		
<b>Sin, Hendrick</b>						
- 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
- on 30 March 2011	-	8,350,000	-	8,350,000	2.500	30/03/2011 to 29/03/2014
	<u>20,650,000</u>	<u>8,350,000</u>	<u>-</u>	<u>29,000,000</u>		
<b>Li Xiaohua (Note 1)</b>						
- on 7 August 2009	2,000,000	-	(1,200,000)	800,000	1.170	07/08/2009 to 06/08/2014
- on 12 October 2009	1,800,000	-	(1,080,000)	720,000	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
- on 30 March 2011	-	235,000	-	235,000	2.500	30/03/2011 to 29/03/2014
	<u>5,800,000</u>	<u>235,000</u>	<u>(2,280,000)</u>	<u>3,755,000</u>		
sub-total	<u>31,050,000</u>	<u>9,055,000</u>	<u>(2,280,000)</u>	<u>37,825,000</u>		

	At 1 January 2011	Granted during the period (1 Jan - 30 Jun 2011)	Exercised during the period (1 Jan - 30 Jun 2011)	At 30 June 2011	Exercise price HK\$	Exercise period
<b>Options granted to independent non-executive directors</b>						
Loke Yu, (Alias Loke Hoi Lam) – 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
Wang Zhizhen – on 4 November 2010	300,000	–	–	300,000	2.248	04/11/2010 to 03/11/2013
sub-total	900,000	–	–	900,000		
<b>Options granted to employees/others</b>						
on 31 October 2008	3,100,000	–	–	3,100,000	0.100	31/10/2008 to 31/10/2011
on 1 April 2009	1,250,000	–	(1,250,000)	–	0.153	01/04/2009 to 31/03/2012
on 7 August 2009	3,524,000	–	(690,000)	2,834,000	1.170	07/08/2009 to 06/08/2014
on 12 October 2009	7,494,000	–	(2,394,000)	5,100,000	1.680	12/10/2009 to 11/10/2014
on 4 November 2010	25,500,000	–	(500,000)	25,000,000	2.248	04/11/2010 to 03/11/2013
on 3 January 2011	–	3,000,000	–	3,000,000	2.430	03/01/2011 to 02/01/2014
on 30 March 2011	–	10,945,000	–	10,945,000	2.500	30/03/2011 to 29/03/2014
sub-total	40,868,000	13,945,000	(4,834,000)	49,979,000		
Total share options	72,818,000	23,000,000	(7,114,000)	88,704,000		

Note 1: Resigned on 31 August 2011.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

Save for the deviation as reported and discussed in the Corporate Governance Report as contained in the Company's 2010 Annual Report, none of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the period for the six months ended 30 June 2011, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-Laws of the Company.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules during the period for the six months ended 30 June 2011. Having made specific enquiry of all directors, each of them has confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by the directors.

## **REVIEW BY AUDIT COMMITTEE**

The Group's interim financial report for the six months ended 30 June 2011 has been reviewed by the audit committee which comprises three independent non-executive directors of the Company.

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

The Company has repurchased a total of 3,398,000 shares at prices ranging from HK\$1.67 to HK\$1.83 per share on the Stock Exchange during the period. All these repurchased shares were pending for cancellation by the Company. Apart from this, the Company had not redeemed, and neither had the Company nor any of its subsidiaries purchased or sold, any of the Company's listed securities during the period.

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

Hong Kong, 25 August 2011