第1视频®
VODONE.com

VODONE LIMITED

(Stock Code: 82)

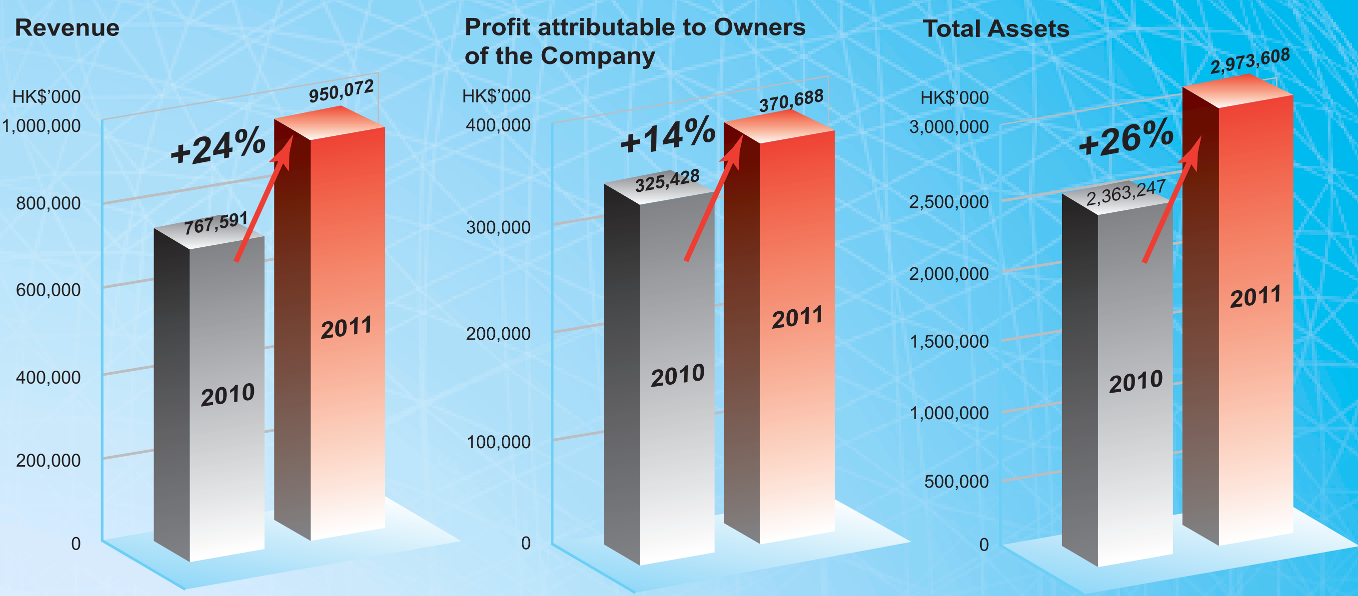
ANNUAL REPORT 2011

(Incorporated in Bermuda with limited liability)

Corporate Profile

VODone is a state-affiliated leading new media enterprise in China. It is principally engaged in news production, internet-video production and broadcasting, advertising, lottery related business and mobile games development and distribution.

Highlights of the Annual Results for 2011



- Turnover in 2011 grew by 24% to HK$950,072,000 year-on-year
- Significant profit contributions to the Group from each of the three major businesses segments
- Profit attributable to owners of the Company amounted to HK$370,688,000 representing an increase of 14% on a year-on-year basis, with an EPS of HK14.72 cents
- Bank and cash balance stood at HK$387,836,000 at the end of the year with no bank borrowings
- Total assets grew to HK$2,973,608,000 representing an increase of 26% during the year
- Proposed final dividend of HK0.8 cent per share
- Proposed bonus issue of 1 new ordinary share for every 10 ordinary shares held

Contents

Corporate Information

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

AUDITOR

BDO Limited

PRINCIPAL BANKERS

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, Wanchai
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

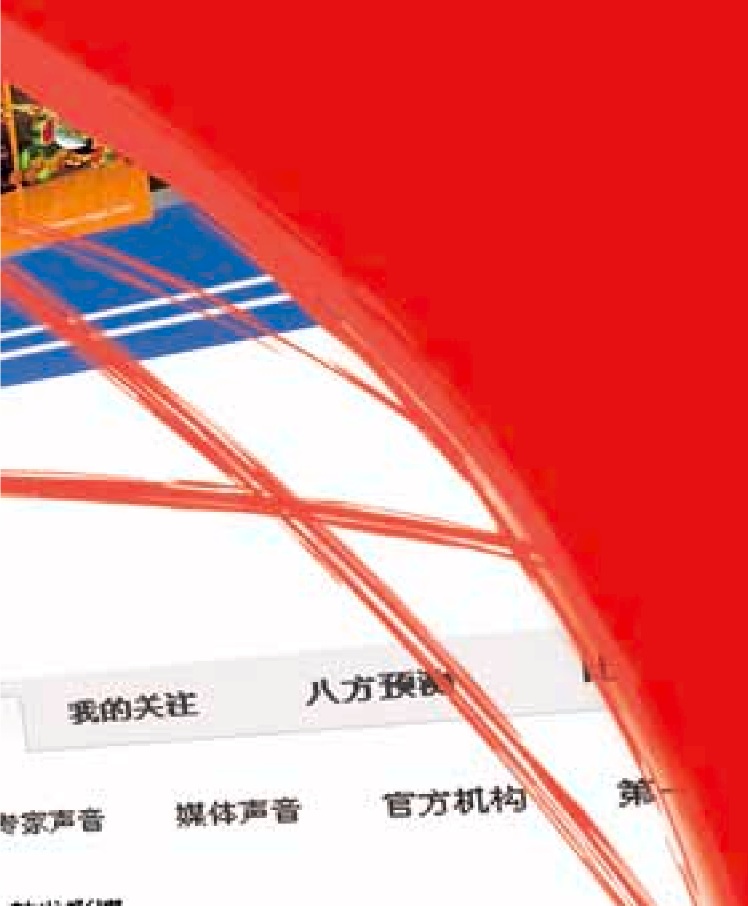
WEBSITES AND E-MAIL ADDRESSES

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

STOCK CODE

00082

CHAIRMAN'S STATEMENT


我的关注
媒体声音
官方机构

「二零一一　第一視頻
積極進取　穩健發展　成績斐然！」

2011 VODONE: PROGRESSIVE AND PRUDENT EFFORTS YIELDING REMARKABLE RESULTS

For the year of 2011 that just elapsed, the global economy experienced a severe downturn. However, China's economy still maintained steady growth against this backdrop. The Group is based in Mainland China and focuses its main businesses on three growth drivers: tele-media, lottery related and mobile games. For business development strategies, we maintained a balance between progressiveness and stability, which laid a solid foundation for continuous and long term business development.

I. TELE-MEDIA BUSINESS

In 2011, the Group made structural adjustments to its advertising business while maintaining the scale of the operation. The Group also adjusted and upgraded its Broadcasting Union System (BUS) and advertising and marketing business in accordance with the relevant State policies. That reduced the policy risk facing its internet union, lowered the cost, strengthened the competitiveness of its new advertising products, and achieved synergy with the VODone Portal in terms of market and customer resources. In addition, riding on Chinese government's support and policy of facilitating the development of cultural and innovation industries, VODone allocated all available resources to build the largest mini-video news portal in China — the VODone Portal.

At present, there are more than 500 million internet users and over 300 million internet video viewers in China. The Group is currently a leading and new internet video media in China with the most comprehensive qualifications and licenses. In the past year, while enjoying all sorts of market advantages, we made significant progress in the development of internet TV which was built on the channels of news, social, finance, entertainment and sports, with the self-produced original news commentary programs, which put emphasis on original news perspective. We selected the most updated and hot topics of the day to show the full picture of the news and reveal the underlying truth. We analyzed topical issues at home and abroad in a truthful and objective manner and from different perspectives ranging from that of the public to that of a scholar. We had provided live and interactive programs from Monday to Sunday, seven hours a day to internet users which had attracted a large number of loyal viewers and had significant influence.

As at the end of December 2011, the number of internet users in China exceeded 500 million to reach 513 million, and new internet users amounted to 55.8 million during the year. The internet penetration rate in China increased 4% from last year to reach 38.3%. The internet video industry maintained strong growth, with users reaching 325 million, up 14.6% from last year, and utilization rate rising to 63.4%, thus making the internet video the fifth most popular application following instant messaging, searching, music and news for internet users in China. The number of self-produced online programs, original short videos, drama series, variety shows and entertainment programs continues to grow.

Looking into 2012, we expect China's internet services, internet TV and mobile TV markets to be one of the most fast growing markets in the world. The VODone Portal will, with advanced technologies and user experience as its core, unique video commenting news as its trump card and interactive commenting as its highlight, rest on its full range of necessary statutory licenses to provide internet users with quality internet products and to build a mini-video commenting platform in China. In addition, the VODone Portal will through such means as mergers and acquisitions to strengthen its unique functions, enhance its core competitiveness and increase profitability so as to enable its advertising and telecommunications value-added businesses to make greater revenue contribution to the Group.

At the end of 2011, the lottery weibo (www.cmwb.com) had more than 600,000 registered users. This blogging service provides players with one-stop information notification and social media services with new media of blogging, and the trend of vertical blogging has emerged. The lottery weibo won the "Best Mobile Internet Application Award of 2011".

II. LOTTERY RELATED BUSINESS

Selling paperless welfare lotteries and sports lotteries in China is one of the highlights of the Group's business. Since the start of operation in early 2009, lottery related business has become a steady source of revenue to the Group.

The Group started its lottery related business a long time ago and has established a leading position. With the support of the China Social Workers Association which is under the Ministry of Civil Affairs, the business has experienced potential growth and developed into a "triple integration" structure covering internet, mobile internet and broadcasting TV terminals. www.diyicai.com (第一彩) and www.zgzcw.com (中國足彩網) made VODone a renowned brand in China's lottery sector. The mobile lottery operations, through the strategic partnership with Spreadtrum Communications, Inc. ("Spreadtrum"), were launched in mid-December 2011. VODone's mobile lottery products based on Spreadtrum's WRE platform targeting feature phones have been introduced to the market in large quantities, which would bring us as much as 300 million potential users.

We joined force with PPTV sports channel in December 2011 to establish a lottery channel on PPTV's official website. PPTV has more than 240 million PC-end users. It has acquired exclusive internet live broadcasting rights in China for a wide range of sports games, including the Premier League, UEFA Champions League, CBA and NFL, and has a large number of sports fan viewers. Through cooperation with www.zgzcw.com, PPTV can offer its users a convenient way to buy lotteries. This function will be put into operation in 2012, which will raise the brand awareness of www.zgzcw.com and also expand our user base and sales volume.

2012 will be a crucial year for lottery development, when the total lottery sales in China will exceed RMB200 billion. Sale of paperless lottery, an advanced selling method which is both environmentally friendly and highly efficient, will become general trend. We anticipate that the government will eventually introduce favorable policies to support lottery development by cleaning up and rectifying the market with an aim to achieve orderly administration. The policies are expected to protect the whole paperless lottery industry and lottery operators like us in the long-term. The Group will adjust its business strategies in a timely manner to be in line with the relevant government policies and to cooperate with lottery administration authorities in an progressive and prudent way to increase its market share. With the guiding principle of "Sales volume matters more than anything else", we are committed to making our lottery related business a star of the Group.

III. MOBILE GAMES BUSINESS

In early 2011, VODone consolidated the operations of its mobile games business and established China Mobile Games and Entertainment Group Limited ("CMGE"). During the year, while maintaining steady business growth, CMGE seized the opportunity brought by the development of the feature phone market and further leveraged its vast user base by including the development and operation of smartphone games. CMGE focused on building strategic partnerships with top international game developers and game operators to continue to expand and consolidate its competitive strengths in the market. CMGE has entered into strategic partnership agreement with world renowned content provider, Disney, and has also established cooperation partnership with distributors of internationally popular games, such as Fruit Ninja. Further, after prolonged analysis and in-depth discussions in November 2011, CMGE has become a partner of Rovio Entertainment Ltd., one of the world's biggest mobile game operators in China. CMGE has been granted the right to develop the feature phone version of the popular Angry Birds games and was selected to become an operating partner for developing and distributing such games in China.

CMGE has made great contributions to VODone's revenue. According to a report from Analysys International, CMGE, holding an 18.3% market share of the revenue generated from the mobile game development market in China, had the largest market share among mobile game developers in China during 2010.

China's mobile broadband and internet markets will grow rapidly in 2012. The Ministry of Industry and Information Technology of China has decided to speed up the construction of China's mobile internet as its main goal for the development of the telecommunications business in 2012. The total number of China's mobile phone users has exceeded 1 billion and is still growing exponentially. Mobile phone users' demand for value-added services, especially mobile games service, is expanding quickly. According to market analysis, the total value of China's mobile game market will reach RMB6.2 billion in 2012. These factors create favorable conditions and rare opportunities for the rapid development of CMGE. CMGE will put greater efforts into capturing opportunities and coping with challenges, with the aim of becoming China's first overseas-listed mobile game company in the future.

There is an old Chinese saying: Distance tests the endurance of a horse and time reveals the heart of a person (Time will prove it). No matter how the global financial conditions or domestic and international situations play out, VODone's management will, in line with our high sense of responsibility and progressive spirit, strive to maintain the steady and sustainable development of our principal activities and maximize shareholders' value, by sticking to our philosophy of development, transforming pressure into impetus, overcoming all kinds of difficulties, and utilizing our knowledge of the global market and in-depth understanding of the Mainland China market. It has been proven that the management's hard work has won the recognition and a high degree of understanding and support of our shareholders.

2012 should be an exciting year for which everyone has his/her own wishes and expectation. I am willing to join all shareholders to wish VODone success and prosperity.

VODone Limited
Zhang Lijun
Chairman

DIRECTORS’ REPORT


V1.CN
第1视频
10:08
第1视频®
VODONE

The directors (the "Directors") of VODone Limited ("VODone" or the "Company") herein present their report together with the corporate governance report, management discussion and analysis and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group is principally engaged in tele-media business, lottery-related business and mobile games business in the PRC. The principal activities and other particulars of certain operational subsidiaries are set out in note 19 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit attributable to shareholders for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 50 to 131.

The Directors now recommend the payment of a final dividend of HK0.8 cent per share and also a bonus issue of shares on the basis of 1 new ordinary share for every 10 ordinary shares held to the shareholders on the register of members of the Company on 8 May 2012.

SEGMENT INFORMATION

The segment information of the Group for the year ended 31 December 2011 is set out in note 6 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 132. This summary is for information only and does not form part of the audited financial statements.

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with explanations thereof, are set out in notes 28 and 35 respectively to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company repurchased a total of 12,206,000 shares of the Company for a total consideration (excluding transaction cost) of HK$13,686,200 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year. Details of the repurchases are as follows:

Month of repurchase	Number of shares repurchased	Price per share paid Highest	Price per share paid Lowest	Aggregate price paid
		HK$	HK$	HK$
June 2011	3,398,000	1.83	1.67	5,974,120
July 2011	1,082,000	1.90	1.74	1,995,840
September 2011	7,726,000	0.89	0.59	5,716,240
Total	12,206,000			13,686,200

All the repurchased shares were automatically cancelled upon repurchase during the year. The issued share capital of the Company was accordingly reduced by the par value of the repurchased shares so cancelled. The above repurchases were effected by the Directors pursuant to the mandate from shareholders, with a view to benefit shareholders as a whole in enhancing the net assets and earnings per share of the Company.

Save as disclosed above and in note 28 and page 53 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 31 and page 53 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company's reserves available for distribution were approximately HK$601,776,000 (2010: HK$505,000,000). The Company's share premium account in the amount of HK$1,163,238,000 (2010: HK$771,111,000) 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	19%
• the five largest suppliers	31%

MAJOR SUPPLIERS AND CUSTOMERS *(Continued)*

(b) Percentage of sales attributable to:

• the largest customer	53%
• the five largest customers	70%

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 the 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, 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.

CHAIRMAN AND DIRECTORS

The chairman of the Company (the "Chairman") and the Directors during the year and up to the date of this report have been:

EXECUTIVE DIRECTORS:

Zhang Lijun *(Chairman)*
Wang Chun
Sin Hendrick
Li Xiaohua (resigned on 31 August 2011)

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. Mr. Sin Hendrick and Dr. Loke Yu (alias Loke Hoi Lam) will retire by rotation at the forthcoming annual general meeting of the Company and being eligible will 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the board of Directors (the "Board") considers them to be independent.

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

EXECUTIVE DIRECTORS

Chairman

Dr. Zhang Lijun, aged 49, holds a Doctoral degree in Economics. He is an executive Director and the Chairman of the Board, 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 Ministry of Foreign Trade and Economic Cooperation, the People's Republic of China, 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, and chairman of Sino-Sky Telecom, etc. Dr. Zhang holds the position as director for other members of the Group. He is the spouse of Ms. Wang Chun.

Ms. Wang Chun, aged 47, holds a Doctoral degree in World Economics and is an executive Director and the chief operating officer of the Company. 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 and was 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 the Company. Ms. Wang holds the position as director for other members of the Group. She is the spouse of Dr. Zhang Lijun.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(Continued)*

EXECUTIVE DIRECTORS *(Continued)*

Mr. Sin Hendrick, aged 37, was appointed as an executive Director and the chief financial officer of the Company in early 2009. Prior to joining the Company, Mr. Sin had over 12 years of extensive experience in investment banking and had advised on a wide range of notable equity fund raisings and merger & acquisition transactions involving the People's Republic of China and Hong Kong corporations, including leading companies in the telecoms/technology, shipping, real estates, retail, energy & resources and health care sectors. 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. Sin holds the position as director for other members of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu (alias Loke Hoi Lam), aged 63, was appointed as an independent non-executive Director in May 2005. He is also the chairman of the audit committee and the remuneration committee of the Company. He has over 37 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 member 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 Hong Kong Institute of Chartered Secretaries. He is currently the company secretary of Minth Group Limited and serves as an independent non-executive director of the Company, Bio-Dynamic Group Limited, Chiho-Tiande Group Limited, China Fire Safety Enterprise Group Limited, Matrix Holdings Limited, SCUD Group Limited, Winfair Investment Company Limited and Zhong An Real Estate Limited, companies listed on the Stock Exchange.

Mr. Wang Zhichen, aged 70, was appointed as an independent non-executive Director in August 2007. Mr. Wang obtained his Bachelor 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, the commissioner and vice general secretary of the China Feed Industry Association, director and vice director of the State Economic Reform Committee, and 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 the director of Middle and Small Enterprise Committee and the chairman of the Middle and Small Enterprise Work Committee of the China APEC Development Council.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(Continued)*

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Wang Linan, aged 63, was appointed as an independent non-executive Director in August 2007. Mr. Wang graduated in Economic Management of the Central Communist Party School of Management, and has more than 16 years of experiences in promotion of science in the People's Republic of China. He had worked as deputy division secretary in the China Association for Science and Technology General Office, 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. Wang Yufei, aged 40, the chief technology officer of the Company, has over 14 years experience in internet network development, with specialization in various large scale internet application systems design and operations. He has been involved in the management and technological development of social-network related products, including SNS Communities. He was also the founding members of prominent internet portals operating in China, and was the Chief Technology Officer of Cyworld（賽我網）. He joined the Group in January 2010.

Mr. Wang Jijun, aged 40, is the Chief Executive Officer of Diyicai of the Group. He has over 11 years experience in lottery and internet technology development in China. In 2001, he formed the first website www.zgzcw.com（中國足彩網）providing gaming information on worldwide football events in the PRC and has been offering detail and real time information about football games of over 50 countries across the world. In 2002, he became the major shareholder of Beijing Pinzheng Technology Development Company Limited（北京品正科技發展有限公司）("Beijing Pinzheng") which engaged in lottery services in the PRC. Prior to 2001, Mr. Wang had served the PRC military services for 11 years. He joined the Group in December 2010 as Chief Operating Officer of Diyicai after the Company acquired 100% interest in Beijing Pinzheng.

Mr. Ding Ding, aged 40, holds a bachelor degree from Shandong University of Technology, is the Chief Operating Officer of Diyicai of the Group. Prior to 2003, Mr. Ding had been the district manager and marketing director of Zhonglu Group. In 2003, he promoted the establishment of Eastbourne Electric Company and became its major shareholder. He served as the consultant of Beijing Pinzheng, and accumulated extensive experience in the operation management and planning of domestic companies providing lottery services. Mr. Ding joined the Group in July 2011.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(Continued)*

SENIOR MANAGEMENT *(Continued)*

Ms. Wang Xiang, aged 37, is the general manager of finance of the Company. Ms. Wang is a Certified Public Accountant in the People's Republic of China. 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 degree in Business Management of Beijing Normal University. She joined the Group in 2006.

Mr. Peng Xitao, aged 33, 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 degree in Computer Communication of Posts and Computer Telecommunications and a Master degree in Computer Applications from Nankai University.

Mr. Li Hai, aged 28, head of corporate finance and investors relations of the Company, 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. Kwok Chi Keung, Andy, aged 44, is the financial controller of the Company. He has over 19 years experience in accounting, auditing and financial management. He holds a Bachelor degree 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.

Mr. Yan Man Sing, Frankie, aged 54, the company secretary of the Company, 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 forthcoming 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 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

(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	337,467,376 (Note 1)	12.45%
Wang Chun	Beneficial owner/Interest of spouse	337,467,376 (Note 2)	12.45%
Sin Hendrick	Beneficial owner	19,500,000	0.72%
Wang Zhichen	Beneficial owner	1,000,000	0.04%
Wang Linan	Beneficial owner	1,000,000	0.04%

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: 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.

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

(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	9,850,000(Note 2)	0.36%
Wang Chun	Beneficial owner/Interest of spouse	9,850,000(Note 3)	0.36%
Sin Hendrick	Beneficial owner	38,000,000	1.40%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	300,000	0.01%
Wang Zhichen	Beneficial owner	300,000	0.01%
Wang Linan	Beneficial owner	300,000	0.01%

Note 1: Details of the above share options granted by the Company are set out in note 35 to the financial statements.

Note 2: Of these 9,850,000 share options, 4,925,000 share options are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 4,925,000 share options through the interest of his spouse, Ms. Wang Chun.

Note 3: Of these 9,850,000 share options, 4,925,000 share options are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 4,925,000 share options through the interest of her spouse, Dr. Zhang Lijun.

(c) LONG POSITION IN THE ORDINARY SHARES OF CHINA MOBILE GAMES AND ENTERTAINMENT GROUP LIMITED, A NON-WHOLLY OWNED SUBSIDIARY OF THE COMPANY:

Name of director	Capacity	Number of ordinary shares held	% of total issued share capital
Zhang Lijun	Beneficial owner	791,832	0.26%
Wang Chun	Interest of spouse	791,832(Note)	0.26%
Sin Hendrick	Beneficial owner	791,832	0.26%

Note: Ms. Wang is deemed to be interested in these shares through the interest of her spouse, Dr. Zhang Lijun.

Save as disclosed herein, as at 31 December 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.

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.

DIRECTORS' INTERESTS IN CONTRACTS

Except for those transactions set out in note 36 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 2011, other than the Directors whose interests are disclosed above, the Company was not aware of any person 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.

RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions, further details of which are included in note 36 to the financial statements. The Directors believe the relevant disclosure requirements in the Listing Rules is met, where applicable.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

The Group remunerates its directors and staff primarily based on their contribution, responsibilities, qualification and experience under the emolument policy set up by the remuneration committee of the Company (the "Remuneration Committee"). The Group has implemented share option schemes as incentive to the Directors and eligible employees.

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 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except those deviations identified in the Corporate Governance Report for 2011 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 is held by the public as at the date of this report.

SUBSEQUENT EVENT

On 3 January 2012, a total of 5,000,000 share options were granted to eligible participants to subscribe for ordinary shares at an exercise price of HK$1.00 per share. The options may be exercisable during the period from 3 January 2012 to 2 January 2014.

On 6 February 2012, a total of 25,835,712 share options of CMGE were granted to Dr. Zhang Lijun, executive Director and substantial shareholder of the Company, Ms. Wang Chun, executive Director and associate of substantial shareholder of the Company, Mr. Sin Hendrick, executive Director and other eligible participants who are not directors or substantial shareholders of the Company, to subscribe for ordinary shares at an exercise price of US$0.605 per CMGE share. The options may be exercisable during the period from 6 February 2012 to 5 February 2017.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in accordance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules 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.

AUDITOR

The financial statements have been audited by BDO Limited.

A resolution for the re-appointment of BDO Limited as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhang Lijun
Chairman

Hong Kong
7 March 2012

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 had applied and complied in all material respects, save for the deviations and reasons thereof as discussed below, with the principles of the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2011.

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 to 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 2011, the Directors have, among other things:

- selected suitable accounting policies and applied them consistently;
- approved adoption of all Hong Kong Financial Reporting Standards which are in conformity with the International Financial Reporting Standards; 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 rests 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 reports, interim reports, 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 carrying out his duty in good faith, acts honestly with due diligence, skill and care and in the best interest of the Company and its shareholders at all times. The role and function of the Directors are published on the websites of the Stock Exchange and the Company.

THE BOARD *(Continued)*

As at 31 December, 2011, the Board had six members (31 December 2010 - seven members), comprising three executive Directors and three 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 this report. In accordance with the Company's bye-laws, the Board members elect among themselves a Director to be the Chairman. Dr. Zhang Lijun has been the Chairman since 8 December 2006.

According to the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this 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.

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 of the Company 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 of the Company.

The Company has arranged appropriate directors and officers liability insurance coverage for its directors and officers.

ATTENDANCE OF DIRECTORS AT BOARD AND COMMITTEE MEETINGS

During the year, the Board had held 10 meetings, 2 Audit Committee meetings, 1 Remuneration Committee meeting and 1 nomination committee meeting. The attendance of individual Directors at the meetings of the Board and the Board committees is set out in the table below.

	Number of Meetings Attended/Meetings Held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Zhang Lijun	10/10	n/a	1/1	1/1
Wang Chun	10/10	n/a	1/1	1/1
Sin Hendrick	10/10	n/a	n/a	n/a
Li Xiaohua [(1)]	4/6	n/a	n/a	n/a
Independent Non-executive Directors				
Loke Yu (alias Loke Hoi Lam)	6/10	2/2	1/1	1/1
Wang Zhichen	6/10	2/2	1/1	1/1
Wang Linan	6/10	2/2	1/1	1/1

Notes:

(1) resigned on 31 August 2011

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 term as their appointments are automatically renewed on an annual basis after the first anniversary. Nevertheless, the independent non-executive Directors are subject to the three-year rotation rules for retirement and re-election by the shareholders as required by the Company's bye-laws.

BOARD COMMITTEES

The Board established the Audit Committee in 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, namely Dr. Loke Yu (alias Loke Hoi Lam) (the chairman), Mr. Wong Zhichen and Mr. Wang Linan. 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 Audit Committee members collectively hold the relevant commercial, industry, financial and auditing experience necessary for the Audit Committee to function effectively and independently. The biographical details of the members of the Audit Committee are detailed in the "Directors' Report" section of this report. The terms of reference of the Audit Committee are published on the websites of the Stock Exchange and the Company.

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;
- to monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and
- to assure that adequate internal controls including financial, operational, compliance controls and risk management are in place and followed.

The Audit Committee had met twice in 2011 and members of the Audit Committee has 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	1,130,000
Non-audit services:	Nil

INTERNAL CONTROL

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

REMUNERATION COMMITTEE

The Remuneration Committee was set up in 2007. The chairman of the Remuneration Committee is Dr. Loke Yu (alias Loke Hoi Lam) and other members are Dr. Zhang Lijun, Ms. Wang Chun, Mr. Wang Zhichen and Mr. Wang Linan. The majority members are independent non-executive Directors. 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 Directors and senior management of the Company.

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 Director. Individual Director and executive would not be involved in deciding his own remuneration. The specific written terms of reference follow closely the requirements of the code provisions of the Code and are on the websites of the Stock Exchange and the Company.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was set up in 2008. The chairman of the Nomination Committee is Dr. Zhang Lijun and other members are Ms. Wang Chun, Dr. Loke Yu (alias Loke Hoi Lam), Mr. Wang Zhichen and Mr. Wang Linan. The majority members are independent non-executive Directors.

In making decisions on nomination of Directors, the Nomination 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 intends 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. 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. 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. The terms of reference of the Nomination Committee are published on the websites of the Stock Exchange and the Company.

CODE OF CONDUCT

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based primarily on the Model Code. 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 Model Code, including the Directors, 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 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 35 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 reports, interim reports, circulars and announcements. In addition, key executives of the Company participate in 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.

THE COMPANY

Under the share option scheme adopted by the Company on 7 June 2002 (the "VODone 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 VODone 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 VODone Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the VODone Scheme (the "VODone Scheme Limit") provided that, inter-alia, the Company may seek approval of the shareholders at general meeting to refresh the VODone Scheme Limit. The maximum number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the VODone Scheme may not, subject to shareholders' approval, exceed 30% of the share capital of the Company in issue from time to time.

A summary of the principal terms of the VODone Scheme is given below:

(I) Purpose of the VODone Scheme:

The purpose of the VODone Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

(II) Participants of the VODone Scheme:

The Directors may at their absolute discretion, invite any person belonging to any of the following classes of participants to take up options to subscribe for shares of the Company:

a. any employee, executive (including any executive director but excluding any non-executive director), manager, consultant or proposed employee, executive, manager, consultant of the Company, any of its subsidiaries ("Subsidiary"), any controlling shareholder (as defined in the Listing Rules) of the Company ("Holding Company") or any entity ("Invested Entity") in which any member of the Group holds any equity interest;

b. any non-executive directors (including independent non-executive directors) of the Company, any Subsidiary, any Holding Company or any Invested Entity;

THE COMPANY *(Continued)*

c. any supplier of goods or services to any member of the Group or any Holding Company or any Invested Entity;

d. any customer of the Group or any Holding Company or any Invested Entity;

e. any person or entity that provides research, development or other technological support to the Group or any Holding Company or any Invested Entity;

f. any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

g. any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Holding Company or any Invested Entity; and

h. any joint venture partner or business alliance that co-operates with any member of the Group or any Holding Company or any Invested Entity in any area of business operation or development.

(III) Total number of shares available for issue under the VODone Scheme and percentage of issued share capital it represents as at the date of this report:

The number of shares available for issue under the VODone Scheme was 214,213,478 shares representing approximately 7.88% of the issued share capital as at the date of this report.

(IV) Maximum entitlement of each participant under the VODone Scheme:

The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the VODone Scheme to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue unless it is approved by shareholders (other than the grantees and/or their respective associates) in general meeting of the Company. Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in general meeting of the Company.

THE COMPANY *(Continued)*

(V) The period within which the shares must be taken up under an option:

The period within which the options must be exercised will be specified by the Company at the time of grant. This period shall not be more than 10 years from the relevant date of grant.

(VI) The minimum period for which an option must be held before it can be exercised:

The Company may specify any minimum period(s) for which an option must be held before it can be exercised at the time of grant of the options. The VODone Scheme does not contain any such minimum period.

(VII) The amount payable upon acceptance of option:

A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option.

(VIII) The basis of determining the exercise price:

The exercise price for shares under the VODone Scheme shall be a price determined by the Directors but shall not be less than the highest of:

a. the closing price of shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of the offer of grant which must be a business day;

b. the average closing prices of shares as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of shares for the five trading days immediately preceding the date of the offer of grant which must be a business day; and

c. the nominal value of the shares.

(IX) The remaining life of the VODone Scheme:

The VODone Scheme has the period of 10 years commencing from 7 June 2002.

Details of the share options granted by the Company during the year ended 31 December 2011 are set out in note 35 to the financial statements.

THE SUBSIDIARY

Under the share option scheme of China Mobile Games and Entertainment Group Limited ("CMGE"), a non-wholly owned subsidiary of the Company, adopted by CMGE and approved by the Company on 15 November 2011 (the "CMGE Scheme"), the directors of CMGE may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of CMGE. The CMGE Scheme is effective for the period from 15 November 2011 to 14 November 2021. The total number of shares of CMGE (the "CMGE Shares") which may be allotted and issued upon exercise of all options to be granted under the CMGE Scheme shall not in aggregate exceed 10% of the number of the CMGE Shares in issue at the date of approval of the CMGE Scheme (the "CMGE Scheme Limit") provided that, inter-alia, CMGE and the Company may seek approval of the shareholders at general meeting to refresh the CMGE Scheme Limit. The maximum number of the CMGE Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the CMGE Scheme may not, subject to shareholders' approval by CMGE and the Company, exceed 30% of the share capital of CMGE in issue from time to time.

A summary of the principal terms of the CMGE Scheme is given below:

(I) Purpose of the CMGE Scheme:

The purpose of the CMGE Scheme is to enable CMGE to grant option to selected eligible persons as incentives or rewards for their contribution or potential contribution to CMGE and/or the Affiliate as defined below.

(II) Participants of the CMGE Scheme:

Subject to the terms of the CMGE Scheme and for so long as CMGE remains a subsidiary of the Company, subject also to the Listing Rules, the board of directors of CMGE (the "CMGE Board"), may at their absolute discretion, make offers to any eligible persons as defined below to take up options to subscribe for the CMGE Shares:

a. any executive, employee or director of CMGE or any company which is a holding company, a subsidiary, a fellow subsidiary or an associated company of CMGE (the "Affiliate"); and

b. any consultant, adviser, agent, business partner, joint venture partner, service provider, contractor of CMGE or any Affiliate, who, as determined at the sole discretion of the CMGE Board, has or may have contribution to CMGE.

(III) Total number of shares available for issue under the CMGE Scheme and percentage of issued share capital it represents as at the date of this report:

The number of the CMGE Shares available for issue under the CMGE Scheme was 4,559,243 shares representing approximately 1.49% of the issued share capital of CMGE as at the date of this report.

THE SUBSIDIARY *(Continued)*

(IV) Maximum entitlement of each participant under the CMGE Scheme:

The maximum number of the CMGE Shares issued and which may fall to be issued upon exercise of the options granted under the CMGE Scheme to each participant in any 12-month period up to the date of grant must not exceed 1% of the CMGE Shares in issue unless it is approved by shareholders of CMGE and the Company (other than the grantees and/or their respective associates) in general meeting of CMGE and the Company. Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the CMGE Shares in issue and with an aggregate value (assuming such share options were exercised and based on the adjusted net asset value per share in accordance with the latest audited accounts of CMGE, or based on the closing price of the CMGE Shares at the date of the grant where the CMGE Shares are listed on any stock exchange) in excess of HK$5 million, in any 12-month period, are subject to approval by shareholders of CMGE and the Company in general meeting.

(V) The period within which the shares must be taken up under an option:

The period within which the options must be exercised will be specified by CMGE at the time of grant. This period shall not be more than 10 years from the relevant date of grant.

(VI) The minimum period for which an option must be held before it can be exercised:

CMGE may specify any minimum period(s) for which an option must be held before it can be exercised at the time of grant of the options. The CMGE Scheme does not contain any such minimum period.

(VII) The amount payable upon acceptance of option:

A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option.

(VIII) The basis of determining the exercise price:

The exercise price for the CMGE Shares under the CMGE Scheme shall be determined by the CMGE Board on a fair and reasonable basis, taking into consideration the prevailing market condition, performance of CMGE and after having assessed the efforts, performance and/or future potential contribution of the eligible persons to the success of the business and operations of CMGE (and its subsidiaries from time to time), which shall be no less than the nominal value of the CMGE Share on the date of the offer of grant.

Except for any waivers that may be granted by the Stock Exchange, the exercise price in respect of any share option granted after the Company has resolved to seek a separate listing of CMGE on the Stock Exchange or an overseas stock exchange and up to the listing date of CMGE must be not less than the new issue price (if any) of the CMGE Shares on listing. Without prejudice to the foregoing, any option granted during the period commencing six months before the lodgement of Form A1 (or its equivalent for listing on the Stock Exchange or any overseas exchange) up to the listing date of CMGE are subject to the above requirement. Unless otherwise approved or waived by the Stock Exchange, the exercise price of any option granted during such period shall be adjusted to a price not lower than the new issue price as the CMGE Board may deem appropriate; or (where applicable) such price as from time to time adjusted pursuant to the CMGE Scheme.

(IX) The remaining life of the CMGE Scheme:

The CMGE Scheme has the period of 10 years commencing from 15 November 2011.

MANAGEMENT DISCUSSION AND ANALYSIS


购彩大厅
过关统计
双色球 你也
8亿 赶快
乐透:三重号!

OPERATING RESULTS

Turnover of the Group for the year ended 31 December 2011 amounted to HK$950,072,000, representing an increase of around 24% as compared with the corresponding period last year. Profit attributable to the owners of the Company was HK$370,688,000, an increase of 14% from the last corresponding period.

BUSINESS REVIEW AND DEVELOPMENT

VODone focused mainly on the development of the tele-media, lottery related and mobile games businesses in 2011.

- ### TELE-MEDIA BUSINESS

Steady increase in the influence and number of users of VODone

With "Triple Networks Convergence" and the development of 3G technology, the creative ideas and contents of the VODone Portal have attracted an increasing number of audience. With Internet TV as its core, the VODone Portal focused on self-produced original news commentary programs which provide original opinions on the latest and fastest news from both the general public's and scholars' perspectives, outlining a full picture of domestic and international hot topics supplemented with truthful and objective analysis. This news portal provides live interactive programs to netizens seven days a week. The VODone Portal features a great variety of video programs with strong interaction. In addition, Broadcasting Union System has kept improving the online platform to extend its advertising business coverage to PC and mobile handsets, thus achieving the sharing of traffic flow, advertising products and customers and strengthing synergistic effects.

The website is well recognized by the government and netizens

In 2011, the VODone Programs, "Views of People from the Mainland China and Taiwan on Expo-2010 Shanghai World Expo" and "Blog in Expo", were awarded the "Best Theme Award" and the "Best Cultural Event Award" respectively by the State Council Information Office. In addition, VODone was also recognized as a "Strategic Partner during the Ten Series of Activities" organized by Internet Association of China, as well as being awarded the "Outstanding Theme Production Award" for online propaganda newspaper celebrating the 90th anniversary of the founding of the Communist Party of China by Beijing Internet Publicity Management Office. Other awards included the "Best Content Production Prize of the Event Online Celebration in Chinese New Year Dinner", the "Outstanding Organization Award at the Sixth Spring Festival Creative Short Blessing Message Competition" and the "Outstanding Organization Award at Online Program Recruiting Event" celebrating the 90th anniversary of the founding of the Communist Party of China jointly awarded by Beijing Internet Publicity Management Office and Beijing Association of Online Media.

"Line 0 of Metro" mobile radio station

Since the launch of "Line 0 of Metro", the mobile radio station has attracted hundreds of thousands of loyal and active audience and the "Line 0 of Metro" handset program has been downloaded by users for more than 5 million times. Meanwhile, "Line 0 of Metro" has kept improving the functions of clients' handset to further increase the standard of existing programs. Now anywhere in the world, one can listen to "Line 0 of Metro".

Linfo

Mobile internet are developing rapidly in China; Location-Based Services (LBS) and Social Networking Service (SNS) are developing continuously and going mature; and the number of handset user has exceeded one billion, and hence LBS and SNS will achieve even greater development. Therefore, we are making efforts to research and develop new Linxun with the continual addition of new functions which support mobile phones using the four major operating systems including iOS, Android, Symbian and Window Mobile such as iPhone, HTC, Nokia, Samsung and Motorola. It is anticipated that handset users will have a better experience following the launch of the new version of Linxun software. This will also bring wider space for development of the Group.

V1 Group Buying

In pursuing its operating principle "Open, Synergic and Prosperous" and the mission "Providing the best quality products at a reasonable price and delivery in efficient and convenient ways", V1 Group Buying (v1tuan.v1.cn) has positioned itself as a provider of comprehensive beer and skittles solutions for the trendy group of people aged 20 to 45 in cities. V1 Group Buying has been recognized by the China International Electronic Commerce Centre under the Ministry of Commerce in terms of its credit and integrity. Under the current fast paced development of e-commence, V1 Group Buying has laid a good foundation for the development of e-commerce business of VODone.

Lottery Weibo achieved the transformation from availability to utility

2011 was a rapidly developing year for lottery weibo. As at 31 December, lottery weibo had over 600,000 registered users in total and published 12 new terminal versions since the lottery weibo system was launched in March 2011. The lottery weibo increased such practical terminal functions as live score, lottery results hall, forecasts from all directions and tips for consecutive bets. Meanwhile, it optimized the structure of the system, and reduced users' time for waiting responses by adopting techniques such as load balancing, Memcached and ActiveMQ so as to enhance the system processing capability to a greater extent and improve its performance and user experience. Currently, we introduce lottery weibo to 54 application platforms, covering almost all download platforms and thus users can install our software through any application platform.

In 2011, lottery weibo won the "Best Mobile Terminal Application Award for 2011 of Communications Weekly (通信產業報 2011 最佳移動終端應用獎)", which was a recognition of our products.

The products are of high technology and the internet and phone betting system are well developed. The smart betting system has the following features: supporting multi-person concurrent betting, tips on the most popular and least popular bets, smart tips for consecutive bets, instant betting analysis statement, interactive information sharing with lottery weibo, and warning for improbable bets.

- LOTTERY RELATED BUSINESS

Integrating triple networks promotes business development and diversified lottery betting is outstanding

The triple integration of digital television, internet and telecommunication networks enabled the provision of more diversified, multimedia-enabled, personalized and convenient lottery betting services to general lottery players.

Firstly, the integration with digital television network opened a new chapter for television lottery betting. Diyicai of VODone (第一視頻第一彩) established partnership with China Digital TV (永新視博), Sumavision (數碼視訊) and Beijing TV Media (京視傳媒) to jointly develop the lottery market of China.

Secondly, users' valuation on Diyicai (第一彩) and www.zgzcw.com (中國足彩網) was obviously enhanced with increasing content and the incorporation of plenty of experts' forecasts and exclusive recommendations. Moreover, information before a game was updated daily to provide more valuable references for soccer lottery and match game betting, which was highly pursued and well-received by lottery players. At present, there are more than 40 certified specialists and celebrities and the advices given by the specialists attracted a large number of lottery players which shall further increase the popularity of our lottery related business.

Thirdly, mobile lottery betting was optimized and upgraded constantly, and the wide applications of smartphones laid a solid foundation for the development of mobile lottery betting. In addition, our lottery betting process was developed to constantly adapt to the smartphone market.

Diversified channels for lottery sales

Apart from co-operating with manufacturers of mobile phone software and branded mobile phone and mobile terminal operators, such as Longcheer (龍旗), Hangzhou SKY-MOBI (杭州斯凱) and Lenovo-Mobile (聯想移動) etc. and large financial institutions such as banks, our lottery related sales channels have also established long-term stable strategic partnership with website platforms such as CI International (通路國際), financial institution platforms such as China Construction Bank, Bank of Communications, Minsheng Bank and Agricultural Bank of China, various branded manufacturers and advertisers. In particular, our cooperation with PPTV, Spreadtrum and CI International, further improved the popularity of the lottery related business of VODone and laid a solid foundation for future development.

Under the complementary support of lottery information, mobile phone lottery betting system, physical shops and the new media of lottery weibo, Diyicai had full range of coverage of all welfare lotteries and sports lotteries, making it become one of the lottery operation platforms with the most comprehensive range of lotteries and the strongest service and technical support within the industry. 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 advantages in technology, products and channels would help bringing the lottery related business of Diyicai to a higher level, thus creating even more remarkable results.

• MOBILE GAMES BUSINESS

CMGE's substantial growth in 2011

VODone's mobile game subsidiary — CMGE focuses on the growing mobile game industry is the largest mobile game developer and operator in China as measured by 2010 market share. CMGE maintains professional and excellent execution strength in every segment on its value chain, ranging from functional game development to online download platform as well as from popular game distribution to cross-platform transition to cell phone built-in games. Our mobile games business focuses on independent research and development and operation of single player games, social games and games SNS platform. We possess core game development technologies for all major feature phone chip platforms and smartphone operating systems, together with experienced teams for independent planning, art design, R&D and operations. Besides, we have established strong and solid terminal built-in channels for feature phones, as well as, marketing channels for in-depth cooperation with mobile operators. We have also entered cooperation agreements with the marketing channels of major application stores. At present, we have established cooperation partnership with over 400 handset design houses and mobile handset manufacturers, and provided built-in games for over 28 million mobile phones during 2011.

Enriched product contents

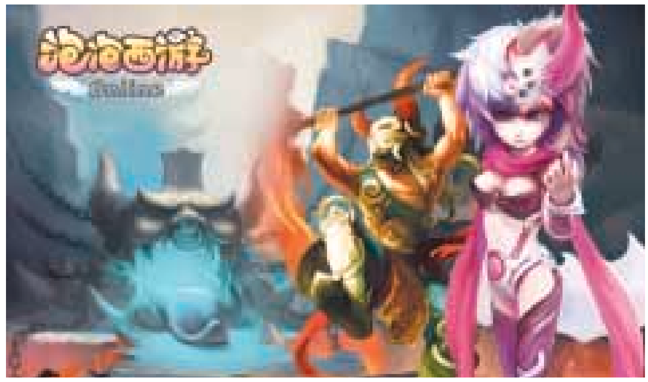
Through strategic partnership with world renowned game developers, Rovio Entertainment Ltd., as well as famous global brand such as Disney, KKFun further enriched its product portfolios for feature phone games and broadened CMGE's reputation and brand image. KKFun is working with distributors of popular mobile games to develop and distribute games in China. Our "Aiwan" (the feature phone game store) is a duly authorized download platform for two popular games, "Angry birds" and "Fruit Ninja" in China. As for the online game platform "Douwan", with sufficient operation statistics and player feedbacks being available, we plan to further upgrade "Douwan" to a SOLOMO (Social, Local and Mobile) mode cross-mobile phone platform, mainly based on casual games competitions platform featuring LBS (Location Based Service) positioning and social interaction functions.

Further consolidation of advantages in channels

In terms of sales channels, KKFun has reinforced cooperation with branded mobile handset manufacturers and managed to strengthen cooperation partnership with world-leading mobile phone chip providers — MTK, MStar and Spreadtrum, and gained support from them in both the technological and marketing aspect. In 2011, KKFun's mobile games installation has exceeded 28 million handsets.

As for single player mobile games, CMGE will closely cooperate with social and game platforms to further increase the distribution of its games.

As for mobile social games for feature phones and smartphones, 3GUU has developed five games, namely "The Creation Song", "Xiao'o Jianghu", "Paopao Xiyou", "Xunqinji" and "Dianfeng", of which the last three were launched in 2011. As "The Creation Song" is gradually fading out from the market, we have put emphasis on marketing the other four games. In 2011, new registered users for mobile social games for smartphones reached over 7 million. The total revenue from mobile social games for 2011 is RMB29,570,000.



In 2011, 3GUU purchased 256 single player smartphone games from third parties, which are packed in the single player games monthly package (G+ Games package) available on the China Mobile's "Game Zone" and other operators. In 2011, there were more than 2.6 million paying users for the G+ Games package with a revenue of RMB44,500,000. In addition, 3GUU launched eight single player smartphone games for iPhone and iPad in 2011 and two games are under development and will be launched soon.

In 2011, 3GUU made significant progress in finalizing contract agreements with China Telecom. 3GUU has successfully became the authorized operator for China Mobile's Game Zone games stores. 3GUU was elected as China Mobile's Class A game partner qualification in their recent quarterly assessment and has been accredited as an excellent game business partner and is well-recognized by China Mobile.

2012 Prospect

Based on the estimated development trend of mobile phones and mobile phone games, CMGE will transform into a social mobile games developer and operator with cross platforms (ranging from Feature Phone to Smart Phone), while maintaining its advantages in single player games products development and phones installation. For the first half of 2012, KKFun will introduce a new version of "Douwan Tournament Game Community" and "Paopao Xiyou" developed by 3GUU is also expecting to officially launch on 360 game center, Sina Weibo and Japan GREE platform.

AWARD

No.	Name of Award	Organized by
1	The "Creditworthy Enterprise Award for Achieving the AAA Corporate Credit Rating"	Internet Society of China (www.isc.org.cn)
2	Both the websites of www.diyicai.com and www.v1.cn were awarded certificates of "Lottery Industry Brand for Protection of Consumers' Rights on Online Transactions 2011"	Online Transactions Protection Centre (www.315online.com.cn)
3	The "China Internet Charity Award 2010 – 2011"	Internet Society of China
4	"Views of People from the Mainland China and Taiwan on Expo 2010" were awarded the "Best Theme Award"	State Council Information Office of the People Republic of China
5	"Blog in Expo" was awarded the "Best of Cultural Event Award"	State Council Information Office of the People Republic of China
6	"Line 0 of "Metro was awarded" the "Best Electronic Entertainment and Games Website" of the World Summit Award in China Zone	Internet Professional Association, Internet Society of China
7	The "Strategic Partner during the Tenth Series of Activities"	Internet Society of China
8	Dr. Zhang Lijun, Chairman of the Board was awarded the Honour of the "Top 10 Influential Persons in the China Era of the 11th Harmony in China Awards"	Organizing Committee of the Annual Influential Persons Assessment Activities of the Harmony in China Awards (www.hxzg.net)
9	Dr. Zhang Lijun, Chairman of the Board was appointed as the "Honorary President" of the Third Board of Directors of Beijing Association of Online Media	Beijing Association of Online Media
10	The "Special Contribution Award"	China Association of Social Workers

11.	"Paopao Xiyou"（泡泡西遊）was awarded the "Top 10 Most Popular Ethnic Mobile Games" in 2011	China Game Industry Annual Conference
12.	"Paopao Xiyou"（泡泡西遊）was awarded "2011 Golden Plume Award" (the best mobile platform for online games)	China Joy Organizing Committee
13.	Guangzhou Yingzheng（廣州盈正）was ranked in the Top 20 in the "7th Top 50 China Online Games Enterprise Award 2011"	Spforum,net, Great Wall Club and CSDN
14.	Guangzhou Yingzheng（廣州盈正）obtained the qualification of Grade A Partner in the mobile games business partnership assessment of China Mobile in the 4th Quarter of 2011	China Mobile

FINANCIAL REVIEW

BUSINESS SEGMENTS

	Tele-media business		Lottery-related business		Mobile games business		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**430,010**	437,525	**203,507**	179,252	**316,555**	150,814	**950,072**	767,591
Reportable segment profit	**157,494**	226,810	**107,200**	103,976	**120,539**	84,819	**385,233**	415,605

TELE-MEDIA BUSINESS

The tele-media business contributed a turnover of HK$430,010,000 to the Group for the year of 2011, representing a decrease of around 1.7% as compared with HK$437,525,000 for the corresponding period last year. Segment profit was HK$157,494,000 for the period, representing a decrease of around 30% over last year.

LOTTERY RELATED BUSINESS

As at 31 December 2011, the Group recorded a lottery-related income of HK$203,507,000, representing an increase of around 13% as compared with the corresponding period last year. Profit of the segment increased by 3.1% to HK$107,200,000 when compared with last year's corresponding period.

MOBILE GAMES BUSINESS

For the Year of 2011, revenue significantly increased to HK$316,555,000, representing an increase of 109% as compared with the corresponding period in 2010. Segment profit increased by 42% to HK$120,539,000.

COSTS

The increase in sales and marketing expenses 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 of the Company (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.

NET PROFIT

Profit attributable to the owners of the Company for the year was HK$370,688,000, compared to a profit of HK$325,428,000 in the last year, representing an increase of 14% on a year on year basis.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had HK$387,836,000 cash and cash equivalents (31 December 2010: HK$399,282,000).Working capital was HK$1,226,936,000 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 31 December 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 31 December 2011, the Group's current ratio was 5.6 (31 December 2010: 2.3). 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.

During the year, the Group recorded a net cash inflow from operating activities amounting to HK$78,999,000 as compared with the corresponding period in 2010 recording a net cash outflow from operating activities amounting to HK$67,507,000.

CHARGES AND CONTINGENT LIABILITIES

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

CAPITAL STRUCTURE

As at 31 December 2011, the total assets of the Group were HK$2,973,608,000 (2010: HK$2,363,247,000). Issued number of shares increased from 2,398,864,996 shares (31 December 2010) to 2,711,584,784 shares (31 December 2011), which was mainly due to the issuance of new shares as a result of assets acquisition 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 2011 was HK$4,838,000 (2010: gain of HK$2,619,000).

On 29 March 2011, the Company entered into a 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 of the Company, 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 31 December 2011, the Group had a total of 607 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 staff stock option plans. The Group has granted options to the 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.

FINANCIAL STATEMENTS

For the year ended 31 December 2011


CMGE
中国手游娱乐集团
China Mobile Games and Entertainment Group

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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 (together, the "Group") set out on pages 50 to 131, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

BDO

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.

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 2011 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, 7 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	7	950,072	767,591
Cost of revenue		(284,895)	(162,406)
Gross profit		665,177	605,185
Other gains and losses	8	171,656	8,376
Selling and marketing expenses		(247,301)	(130,364)
Administrative expenses		(138,279)	(103,982)
Share of loss of associates	17	(12,479)	(2,410)
Profit before income tax	9	438,774	376,805
Income tax expense	12(a)	(39,381)	(27,091)
PROFIT FOR THE YEAR		399,393	349,714
Other comprehensive income			
Exchange differences arising on translation of foreign operations		94,963	47,029
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		494,356	396,743
PROFIT ATTRIBUTABLE TO:			
Owners of the Company		370,688	325,428
Non-controlling interests		28,705	24,286
		399,393	349,714
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		460,813	369,864
Non-controlling interests		33,543	26,879
		494,356	396,743
EARNINGS PER SHARE			
- Basic (HK cents)	14	14.72cents	13.76cents
- Diluted (HK cents)	14	14.45cents	13.71cents

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	50,016	50,559
Interests in associates	17	41,175	51,571
Goodwill	18	898,344	873,756
Intangible assets	20	486,853	203,393
Deposits for acquisition of property, plant and equipment		5,635	6,239
		1,482,023	1,185,518
CURRENT ASSETS			
Trade receivables	21	195,237	118,550
Other receivables, deposits and prepayments	22	440,469	400,899
Inventories	23	2,557	2,427
Other financial assets	24	37,429	—
Amounts due from associates	36(c)	425,223	238,598
Amounts due from related companies	36(d)	2,834	17,973
Bank balances and cash		387,836	399,282
		1,491,585	1,177,729
CURRENT LIABILITIES			
Trade payables	25	11,657	14,524
Other payables and accruals	26	109,380	131,185
Deposits received		982	1,661
Amount due to a related company	36(e)	53	—
Consideration shares	30	99,393	318,206
Taxation		43,184	31,874
		264,649	497,450
NET CURRENT ASSETS		1,226,936	680,279
TOTAL ASSETS LESS CURRENT LIABILITIES		2,708,959	1,865,797
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	13,487	14,942
NET ASSETS		2,695,472	1,850,855
EQUITY			
Share capital	28	26,141	23,989
Shares to be issued	29	—	3,096
Reserves		2,565,630	1,728,239
Equity attributable to owners of the Company		2,591,771	1,755,324
Non-controlling interests		103,701	95,531
TOTAL EQUITY		2,695,472	1,850,855

Zhang Lijun
Director

Wang Chun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company								
	Share capital (note 28) HK$'000	Shares to be issued (note 29) HK$'000	Share premium (note 31(a)) HK$'000	Other reserves (note 31(b)) HK$'000	Share-based compen-sation reserve (note 31(c)) HK$'000	Exchange fluctua-tion reserve (note 31(d)) HK$'000	Retained profits/ (accu-mulated losses) HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 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
Exercise of share options	1,293	—	202,555	—	(21,456)	—	—	—	182,392
Shares issued for acquisition of assets (note 28 (i))	32	3,096	7,060	—	—	—	—	—	10,188
Business acquisitions (note 32)	—	—	—	—	—	—	—	21,844	21,844
Recognition of share-based payment expense (note 35)	—	—	—	—	13,616	—	—	—	13,616
Transfer upon cancellation of share options (note 35)	—	—	—	—	(221)	—	221	—	—
Transfer of share premium to accumulated loss (note 31(e))	—	—	(800,000)	460,503	—	—	339,497	—	—
Dividend paid (note 15)	—	—	—	(14,216)	—	—	—	—	(14,216)
At 31 December 2010 and 1 January 2011	23,989	3,096	771,111	479,761	18,647	110,906	347,814	95,531	1,850,855

	Attributable to owners of the Company								
	Share capital (note 28) HK$'000	Shares to be issued (note 29) HK$'000	Share premium (note 31(a)) HK$'000	Other reserves (note 31(b)) HK$'000	Share-based compen-sation reserve (note 31(c)) HK$'000	Exchange fluctua-tion reserve (note 31(d)) HK$'000	Retained profits/ (accu-mulated losses) HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 31 December 2010 and 1 January 2011	23,989	3,096	771,111	479,761	18,647	110,906	347,814	95,531	1,850,855
Profit or loss	—	—	—	—	—	—	370,688	28,705	399,393
Other comprehensive income	—	—	—	—	—	90,125	—	4,838	94,963
Total comprehensive income for the year	—	—	—	—	—	90,125	370,688	33,543	494,356
Exercise of share options (note 28(ii))	82	—	11,039	—	(1,648)	—	—	—	9,473
Shares issued for acquisition of assets in prior year (note 28(i))	13	(3,096)	3,083	—	—	—	—	—	—
Shares issued for acquisition of assets, net of acquisition costs (note 28(iii))	928	—	106,669	—	—	—	—	—	107,597
Consideration shares for business acquisitions (note 32)	351	—	82,467	—	—	—	—	—	82,818
Recognition of share-based payment expense (note 35)	—	—	—	—	17,680	—	—	—	17,680
Transfer upon cancellation of share options (note 35)	—	—	—	—	(92)	—	92	—	—
Placing of new shares (note 28(iv))	900	—	202,500	—	—	—	—	—	203,400
Repurchase of shares (note 28(v))	(122)	—	(13,631)	—	—	—	—	—	(13,753)
Dividend paid (note 15)	—	—	—	—	—	—	(36,293)	—	(36,293)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	(26,435)	(26,435)
Recognition of share-based payment expense and deemed disposal of partial interest in a subsidiary	—	—	—	4,712	—	—	—	1,062	5,774
At 31 December 2011	26,141	—	1,163,238	484,473	34,587	201,031	682,301	103,701	2,695,472

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES			
Profit before income tax		438,774	376,805
Depreciation of property, plant and equipment		17,185	10,498
Amortisation of intangible assets		36,105	9,225
Foreign exchange gain, net		(4,838)	(2,619)
Interest income		(1,203)	(2,391)
Loss on disposal of property, plant and equipment		8	29
Share of loss of associates		12,479	2,410
Share-based payment expense in respect of			
– granting of share options		17,680	13,616
– granting shares of subsidiary		5,774	—
Fair value gain on consideration shares		(163,846)	(2,932)
Operating cash flows before working capital changes		358,118	404,641
Increase in trade receivables		(70,363)	(79,179)
Increase in other receivables, deposits and prepayments		(21,248)	(208,189)
Increase in amounts due from associates		(171,747)	(177,615)
Decrease/(increase) in amounts due from related companies		16,213	(12,313)
Decrease in inventories		(130)	(2,427)
(Decrease)/increase in trade payables		(3,454)	7,488
Increase in other payables and accruals		2,920	2,830
Decrease in deposits received		(679)	(806)
Increase in amount due to a related company		53	—
Effect of foreign exchange rate changes		1,070	1,626
Net cash generated from/(used in) operations		110,753	(63,944)
Income tax paid		(31,754)	(3,563)
Net cash generated from/(used in) operating activities		78,999	(67,507)

	Notes	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(13,404)	(16,849)
Purchases of intangible assets		(146,811)	(1,593)
Proceeds on disposal of property, plant and equipment		10	—
Acquisition of subsidiaries	32(f)	(105,559)	(31,188)
Interest received		1,203	2,391
Net cash used in investing activities		(264,561)	(47,239)
FINANCING ACTIVITIES			
Net proceeds from issue of shares		9,473	182,392
Payment of dividend		(38,352)	(14,216)
Repurchase of shares		(13,753)	—
Placing of shares		203,400	—
Net cash generated from financing activities		160,768	168,176
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(24,794)	53,430
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		399,282	339,059
Effect of foreign exchange rate changes		13,348	6,793
CASH AND CASH EQUIVALENTS AT END OF YEAR		387,836	399,282
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		387,836	399,282

Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	214	355
Interests in subsidiaries	19	1,280,004	937,015
Intangible assets	20	235,537	70,924
		1,515,755	1,008,294
CURRENT ASSETS			
Deposits and prepayments	22	2,684	2,684
Other financial assets	24	37,429	—
Amounts due from subsidiaries	19	419,802	555,682
Amount due from a related company	36(d)	33	33
Bank balances and cash		8,024	162,991
		467,972	721,390
CURRENT LIABILITIES			
Other payables and accruals	26	54,330	107,432
Deposits received		21	127
Amounts due to subsidiaries	19	37,815	7
Consideration shares	30	99,393	318,206
Dividend payable		1,013	113
		192,572	425,885
NET CURRENT ASSETS		275,400	295,505
NET ASSETS		1,791,155	1,303,799
EQUITY			
Share capital	28	26,141	23,989
Shares to be issued	29	—	3,096
Reserves	31	1,765,014	1,276,714
TOTAL EQUITY		1,791,155	1,303,799

Zhang Lijun	Wang Chun
Director	*Director*

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 "Stock Exchange"). The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Its principal place of business in Hong Kong 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") are principally engaged in tele-media business, lottery-related business and mobile games business in the People's Republic of China (the "PRC").

The Group provides internet information services in PRC through a series of service agreements (as defined in the Company's circular dated 18 August 2006 and mentioned below) entered into among the Company, the Group's associate – VODone Datamedia Technology Co., Ltd. ("TMD1") and VODone Telemedia Co. Ltd. ("VODone Telemedia").

VODone Telemedia, a company established in the PRC, owns the domain name (www.v1.cn) and is licensed in the PRC to provide an audio/video transmission platform delivering a range of cross media telecommunications contents and valued added services to its customers. Dr. Zhang Lijun is a director of both VODone Telemedia and the Company and has beneficial interests in the Company as at the end of reporting period.

Under the abovementioned arrangements, VODone Telemedia, as the holder of the business licenses, has established a normal commercial arrangement to outsource its various technical, contents, advertising and marketing and other support service with TMD1 for the latter to provide the exclusive business support and content services to VODone Telemedia. The Group provides the support services to TMD1 who can fulfill its obligation as VODone Telemedia's exclusive service provider accordingly.

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

(A) ADOPTION OF NEW/REVISED HKFRSs – EFFECTIVE 1 JANUARY 2011

HKFRSs (Amendments)	Improvements to HKFRSs 2010
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) — Interpretation 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

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

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

(A) ADOPTION OF NEW/REVISED HKFRSs – EFFECTIVE 1 JANUARY 2011 *(Continued)*

HKFRS 3 (Amendments) — Business Combinations

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs. The Group has amended its accounting policies for measuring NCI but the adoption of the amendment has had no impact on the Group's financial statements as there is no business acquisition for the year.

HKAS 24 (Revised) — Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition and no material impact has been noted for current year and comparative periods. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("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.

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[2]
Amendments to HKAS 32	Presentation — Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 27 (2011)	Separate Financial Statements[3]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[3]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 July 2012
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2014
5 Effective for annual periods beginning on or after 1 January 2015

Amendments to HKFRS 7 — Disclosures — Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Amendments to HKAS 1 (Revised) — Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

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

(B) NEW/REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE *(Continued)*

HKFRS 9 — Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 — Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 — Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

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

(B) NEW/REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE *(Continued)*

HKFRS 13 — Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

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") issued by the Hong Kong Institute of Certified Public Accountants 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 other financial assets that are classified as available-for-sale financial assets and carried at fair value, and the deferred considerations that are classified as financial liabilities at fair value through profit or loss and carried at fair value.

(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 Group's and the Company's presentation currency.

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.

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 interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

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.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(A) BUSINESS COMBINATION AND BASIS OF CONSOLIDATION *(Continued)*

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 interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(C) ASSOCIATES *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 term 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	3-10 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 cost of revenue.

Internet SNS assets	Indefinite
Mobile TV assets	Indefinite
Lottery-related platform	5 years
E-shopping platform	5 years
Mobile game licenses and platform	2-7 years
Distribution networks	7-10 years
Websites	10 years
Service contracts	8 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.

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 administrative expenses.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(G) INTANGIBLE ASSETS *(Continued)*

(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.

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.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(H) FINANCIAL INSTRUMENTS *(Continued)*

(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.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

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, 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

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.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follow:

(i) advertising income are recognised when services are rendered or substantially performed in accordance with the terms of the contract;

(ii) service income are recognised when services are performed in accordance with the substance of the relevant agreement;

(iii) 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 amounts are confirmed and advised by these operators to the Group on a monthly basis and revenue is recognised on a gross basis;

(iv) revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer;

(v) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(K) INCOME TAXES *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

(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 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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(P) 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.

(Q) RELATED PARTIES

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(Q) RELATED PARTIES *(Continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

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.

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

(B) KEY SOURCES OF ESTIMATION UNCERTAINTY

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) 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.

(ii) 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.

(iii) Contingent considerations

As part of the consideration transfer in business combinations as set out in notes 30 and 32, 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 32, 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, of which HK$84,340,000 were transferred to equity after release of lock-up and dealing restriction. Remaining were re-measured to HK$99,393,000 as at 31 December 2011 (2010: HK$318,206,000) (note 30).

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

(B) KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(iv) 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.

VODone Information Engineering Co., Ltd ("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, 2010 and 2011.

However, 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.

Based on the above, there is an uncertainty that the PRC tax authorities might impose additional CIT for the year 2009, 2010 and 2011.

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 – Provision of internet information services, including mini-video news portal and self-produced original news commentary programs, in www.v1.cn.
- Lottery-related business – Provision of a lottery operation platform through the complementary support of lottery information in www.diyicai.com and www.zgzxw.com, mobile phone lottery betting system, physical shops and the lottery weibo.
- Mobile game business – Development, operation and distribution of mobile games and design of handsets.

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

(A) BUSINESS SEGMENTS

	Tele-media business		Lottery-related business		Mobile games business		Total	
	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	430,010	437,525	203,507	179,252	316,555	150,814	950,072	767,591
Reportable segment profit	157,494	226,810	107,200	103,976	120,539	84,819	385,233	415,605
Interest income	170	1,612	–	–	1,032	71	1,202	1,683
Depreciation and amortisation	(15,621)	(9,642)	(15,746)	(1,261)	(21,730)	(8,442)	(53,097)	(19,345)
Income tax expenses	(17,508)	(16,348)	(8,893)	(7,594)	(12,980)	(3,149)	(39,381)	(27,091)
Reportable segment assets	1,389,514	814,840	618,848	567,161	875,608	763,500	2,883,970	2,145,501
Additions to non-current assets	103,410	53,360	207,417	138,026	17,358	306,253	328,185	497,639
Reportable segment liabilities	21,239	27,776	22,066	14,309	80,005	44,413	123,310	86,498

6. SEGMENT REPORTING *(Continued)*

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

	2011 HK$'000	2010 HK$'000
Profit before income tax		
Reportable segment profit	385,233	415,605
Other gains and losses	165,092	3,640
Share of loss of associates	(12,479)	(2,410)
Advertising expense	(44,543)	—
Share-based payment expense	(17,680)	(13,616)
Directors' remuneration	(17,842)	(12,184)
Salaries for administrative staffs	(8,470)	(4,435)
Unallocated corporate expenses	(10,537)	(9,795)
Consolidated profit before income tax	438,774	376,805

	2011 HK$'000	2010 HK$'000
Assets		
Reportable segment assets	2,883,970	2,145,501
Other financial assets	37,429	—
Interests in associates	41,175	51,571
Bank balances and cash	8,135	163,103
Unallocated corporate assets	2,899	3,072
Consolidated total assets	2,973,608	2,363,247

	2011 HK$'000	2010 HK$'000
Liabilities		
Reportable segment liabilities	123,310	86,498
Other payables and accruals	54,346	107,561
Consideration shares	99,393	318,206
Unallocated corporate liabilities	1,087	127
Consolidated total liabilities	278,136	512,392

6. SEGMENT REPORTING *(Continued)*

(C) GEOGRAPHICAL INFORMATION

During 2011 and 2010, over 90% of the Group's revenue is attributable to customers in the PRC and over 90% of the Group's total non-current assets are located in the PRC and the remaining non-current assets are located in Hong Kong.

(D) MAJOR CUSTOMERS

As disclosed in note 36(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$371,876,000 (2010: HK$323,960,000) in the tele-media segment and amounted to approximately HK$129,758,000 (2010: HK$138,559,000) 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:

	2011 HK$'000	2010 HK$'000
Revenue		
Tele-media business:		
– advertising and service income	430,010	437,525
Lottery-related business:		
– service and advertising income	203,507	179,252
Mobile games business:		
– sales of mobile games, mobile communication products and provision of maintenance service	316,555	150,814
	950,072	767,591

8. OTHER GAINS AND LOSSES

	2011 HK$'000	2010 HK$'000
Fair value gain on consideration shares (note)	163,846	2,932
Net foreign exchange gain	4,838	2,619
Interest income	1,203	2,391
Loss on disposal of property, plant and equipment	(8)	(29)
Others	1,777	463
	171,656	8,376

Note: It mainly represented fair value gain on consideration shares as disclosed in note 30.

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2011 HK$'000	2010 HK$'000
Staff costs (excluding directors' remuneration) (note 10)		
Salaries and wages	70,283	48,986
Pension fund contributions	12,255	9,562
Share-based payments	13,810	6,944
	96,348	65,492
Carrying amount of inventories sold	30,420	10,634
Amortisation of intangible assets included in		
– Cost of revenue	35,307	8,186
– Administrative expenses	798	1,039
Depreciation of property, plant and equipment	17,185	10,498
Auditor's remuneration	1,130	972

10. DIRECTORS' REMUNERATION

	2011 HK$'000	2010 HK$'000
Directors' fees		
Executive directors	5,254	5,254
Independent non-executive directors	400	400
Basic remuneration, allowances and benefits in kind	12,835	7,029
Share-based payments	9,644	6,672
Pension fund contributions	36	40
	28,169	19,395

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
2011					
Executive directors					
Zhang Lijun	3,935	2,065	1,951	12	7,963
Wang Chun	1,319	1,681	726	12	3,738
Sin Hendrick	—	8,442	6,875	12	15,329
Li Xiaohua (ii)	—	647	92	—	739
Independent non-executive directors					
Loke Yu (alias Loke Hoi Lam)	160	—	—	—	160
Wang Zhichen	120	—	—	—	120
Wang Linan	120	—	—	—	120
	5,654	12,835	9,644	36	28,169

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
2010					
Executive directors					
Zhang Lijun	3,935	2,065	626	12	6,638
Wang Chun	1,319	1,681	626	12	3,638
Yue Hong Chu (i)	—	444	—	4	448
Sin Hendrick	—	2,340	4,629	12	6,981
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

(i) resigned on 7 April 2010

(ii) appointed on 7 April 2010 and resigned on 31 August 2011

There were no arrangements under which a director waived or agreed to waive any remuneration for the year (2010: 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 (2010: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, three (2010: three) were directors of the Company whose emoluments are included in the disclosures in Note 10 above. The emoluments of the remaining two (2010: two) individuals were as follows:.

	2011 HK$'000	2010 HK$'000
Basic remuneration, allowances and benefits in kind	3,217	2,316
Share-based payments	2,731	980
Pension fund contributions	24	24
	5,972	3,320

Their emoluments were within the following bands:

	2011 No. of employees	2010 No. of employees
HK$1,500,000 to HK$2,000,000	—	2
HK$2,500,000 to HK$3,000,000	1	—
HK$3,000,000 to HK$3,500,000	1	—

12. INCOME TAX EXPENSE

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

	2011 HK$'000	2010 HK$'000
Current tax — PRC		
- provision for the year	30,053	27,149
- under provision in prior year	1,040	—
- withholding tax on distribution of retained profits of subsidiaries	8,463	—
Current tax — Hong Kong Profits Tax		
- provision for the year	1,918	1,176
Deferred taxation (note 27)		
- attributable to the reversal of temporary differences	(2,093)	(1,234)
	39,381	27,091

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 the following subsidiaries.

TMD2 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 CIT for years 2006 to 2008, followed by a 50% reduction in CIT for the next 3 years, 2009 to 2011.

廣州億通天下軟件開發有限公司is recognised as a high-technology company according to PRC tax regulations and is entitled to a tax concession from local tax authority in which the company was fully exempted from CIT for years 2011 to 2013, followed by a 50% reduction in CIT for the next 3 years, 2014 to 2016.

OWX Hong Kong Limited is subject to Hong Kong profits tax at 16.5% (2010: 16.5%) on the estimated assessable profits for the year.

12. INCOME TAX EXPENSE *(Continued)*

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

	2011 HK$'000	2010 HK$'000
Profit before income tax	438,774	376,805
Taxation calculated at PRC income tax of 25% (2010: 25%)	109,693	94,201
Tax effect of non-taxable income	(19,963)	(2,696)
Tax effect of expenses not deductible for taxation purposes	12,110	5,892
Utilisation of previously unrecognised tax loss	(545)	(187)
Tax effect of tax losses not recognised	14,596	6,653
Effect of tax exemptions granted	(52,932)	(46,003)
Effect of lower tax rate applicable to subsidiaries as a result of preferential tax policy as described in (a)	(27,773)	(34,069)
Effect of tax rate in foreign jurisdictions	(5,308)	3,300
Under provision in prior year	1,040	—
Withholding tax on distribution of retained profits of subsidiaries	8,463	—
Income tax expense for the year	39,381	27,091

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

The consolidated profit for the year attributable to owners of the Company includes a profit of HK$54,732,000 (2010: a loss of HK$36,390,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2011 HK$'000	2010 HK$'000
Amount of consolidated profit/(loss) attributable to owners dealt with in the Company's financial statements	54,732	(36,390)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	61,702	—
Company's profit/(loss) for the year	116,434	(36,390)

14. EARNINGS PER SHARE

	2011 HK cents	2010 HK cents
Basic earnings per share	14.72	13.76
Diluted earnings per share	14.45	13.71

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

Profit	2011 HK$'000	2010 HK$'000
Profit for the year attributable to owners of the Company, used in the basic and diluted earnings per share calculation	370,688	325,428

14. EARNINGS PER SHARE *(Continued)*

Number of shares	2011	2010
Issued ordinary shares at 1 January	2,398,864,996	2,266,427,996
Effect of exercise of share options	6,414,493	97,213,153
Effect of repurchase of shares	(1,573,200)	—
Effect of placing of new shares	66,575,343	—
Effect of shares issued on acquisition of assets (i)	12,551,545	1,485,589
Effect of shares issued for acquisition of subsidiaries	35,141,728	—
Weighted average number of ordinary shares for basic earnings per share	2,517,974,905	2,365,126,738
Effect of dilution		
– Share subject to recall (ii)	40,880,603	—
– Share options	7,078,555	8,645,819
Weighted average number of ordinary shares for basic earnings per share, adjusted for the effect of dilution	2,565,934,063	2,373,772,557

(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.

(ii) 40,880,603 shares, which are subject to recall as disclosed in note 30, are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date when they are no longer subject to the lock-up and dealing restriction. These shares are included in the calculation of diluted earnings per share as if the conditions of the contingency are deemed to have been met based on the information available, at the end of reporting period.

15. DIVIDENDS

(I) DIVIDENDS PAYABLE TO OWNERS OF THE COMPANY ATTRIBUTABLE TO THE YEAR

	2011 HK$'000	2010 HK$'000
Final dividend proposed after the end of the reporting period of HK0.8 cent per ordinary share (2010: HK1.38 cents per ordinary share)	21,693	36,293

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(II) DIVIDENDS PAYABLE TO OWNERS OF THE COMPANY ATTRIBUTABLE TO THE PREVIOUS FINANCIAL YEAR, APPROVED AND PAID DURING THE YEAR:

	2011 HK$'000	2010 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.38 cents per share (2010: HK0.6 cents per share)	36,293	14,216

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 2010	7,107	8,523	25,384	8,957	1,236	51,207
Business acquisitions	—	—	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
Additions	3,120	106	672	6,980	3,394	14,272
Disposals	—	—	—	(183)	(98)	(281)
Exchange adjustments	1,229	305	1,453	875	186	4,048
At 31 December 2011	18,441	9,368	34,193	29,614	5,977	97,593
Accumulated depreciation:						
At 1 January 2010	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
Charge for the year	2,157	1,491	6,268	6,216	1,053	17,185
Written back on disposal	—	—	—	(24)	(84)	(108)
Exchange adjustments	328	268	656	209	44	1,505
At 31 December 2011	10,060	6,877	18,635	10,455	1,550	47,577
Carrying amount:						
At 31 December 2011	8,381	2,491	15,558	19,159	4,427	50,016
At 31 December 2010	6,517	3,839	20,357	17,888	1,958	50,559

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 2010	1,485	623	260	2,368
Additions	—	6	17	23
At 31 December 2010	1,485	629	277	2,391
Additions	—	5	47	52
At 31 December 2011	1,485	634	324	2,443
Accumulated depreciation:				
At 1 January 2010	1,279	270	109	1,658
Charge for the year	199	125	54	378
At 31 December 2010	1,478	395	163	2,036
Charge for the year	6	125	62	193
At 31 December 2011	1,484	520	225	2,229
Carrying amount:				
At 31 December 2011	1	114	99	214
At 31 December 2010	7	234	114	355

17. INTERESTS IN ASSOCIATES

	Group 2011 HK$'000	Group 2010 HK$'000
Share of net liabilities	(18,583)	(5,568)
Goodwill	59,758	57,139
	41,175	51,571

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) (note 18).

Particulars of the Group's associates are as follows:–

Name of company	Place of incorporation and operation	Proportion of ownership interests	Principal activity
第一視頻數碼媒體技術有限公司 (VODone Datamedia Technology Co., Ltd.) ("TMD1")	PRC	49%	Provision of tele-media business support and content services
北京迷你威網絡科技有限公司	PRC	49%	Inactive

17. INTERESTS IN ASSOCIATES *(Continued)*

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

	Group	
	2011 HK$'000	2010 HK$'000
Total assets	386,326	253,133
Total liabilities	(424,249)	(264,496)
	(37,923)	(11,363)
Group's share of associates' net liabilities	(18,583)	(5,568)
Revenue	504,274	483,044
Loss for the year	(25,467)	(4,918)
Group's share of associates' loss for the year	(12,479)	(2,410)

18. GOODWILL

	Group HK$'000
Cost:	
At 1 January 2010	474,314
Business acquisitions	381,102
Exchange adjustments	18,340
At 31 December 2010	873,756
Adjustment to the cost of business combination (i)	(15,477)
Exchange adjustments	40,065
At 31 December 2011	898,344

(i) The adjustment to the consideration shares for acquisition of Dragon Joyce in 2009 as mentioned below in note 24(ii) was treated as adjustment to the cost of business combination and recognised as part of goodwill.

18. GOODWILL *(Continued)*

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

	2011 HK$'000	2010 HK$'000
Tele-media CGU (TMD) - PRC	288,604	275,951
Tele-media CGU (Pinzheng) – PRC (note 32(c))	113,350	108,381
Mobile game CGU (Dragon Joyce) - PRC	211,163	216,703
Mobile game CGU (3GUU) – PRC (note 32(d))	203,165	194,257
Mobile game CGU (OWX) – PRC (note 32(b))	82,062	78,464
	898,344	873,756

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 approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated average growth rate of 3% (2010: 3%), which does not exceed the long-term growth rate for tele-media industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by the management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2011	2010
Operating margin	44%-59%	53%-63%
Discount rate	19.11%	18.68%
Growth rate within the five-year period	10%-40%	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.

18. GOODWILL *(Continued)*

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 approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2010: 3%), which does not exceed the long-term growth rate for tele-media industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by the management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2011	2010
Operating margin	51%-65%	69%-77%
Discount rate	21.61%	20.33%
Growth rate within the five-year period	8%-31%	5%-31%

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 (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 approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated average growth rate of 3% (2010: 3%), which does not exceed the long-term growth rate for mobile game industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by the management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2011	2010
Operating margin	49%-54%	65%
Discount rate	19.11%	24.21%
Growth rate within the five-year period	3%-45%	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.

18. GOODWILL *(Continued)*

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 approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated average growth rate of 3% (2010: 3%), which does not exceed the long-term growth rate for mobile game industry in the PRC.Cash flows for the first five financial periods are based on expected sales orders estimated by the management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2011	2010
Operating margin	59%-64%	54%
Discount rate	22.04%	24.57%
Growth rate within the five-year period	5%-69%	30%-35%

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 (OWX)

The recoverable amounts of mobile game CGU (OWX) have been determined from value in use calculations based on cash flow projections from approved budgets covering a two-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2010: 3%), which does not exceed the long-term growth rate for mobile game industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by the management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2011	2010
Operating margin	32%-33%	27%
Discount rate	21.6%	22.17%
Growth rate within the five-year period	3%-48%	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.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares/capital contributions, at cost	1,314,313	971,324
Less: Provision for impairment	(34,309)	(34,309)
	1,280,004	937,015

The amounts due from and to subsidiaries are unsecured, interest-free and are repayable on demend.

Particulars of the Company's principal subsidiaries at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
Clear Concept International Limited	The 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

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
第一視頻信息工程有限公司 (VODone Information Engineering Co, Ltd.) ("TMD2") (i)	PRC	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	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	PRC	RMB39,306,800	98.47%	—	Provision of entertainment production services
Dragon Joyce Limited ("Dragon Joyce")	BVI	#	US$1,000	100%	—	Investment holding
China Mobile Games and Entertainment Group Limited ("CMGE")	The Cayman Islands	#	US$303,950	—	69.6%	Investment holding
匯友數碼（深圳）有限公司 (Huiyou Digital (Shenzhen) Ltd.) (i)	PRC	PRC	HK$550,000	—	69.6%	Development and provision of mobile games
北京動感樂風信息技術有限公司 (i)	PRC	PRC	RMB30,000	—	69.6%	Development and provision of mobile games
深圳市豆玩網路科技有限公司 (i)	PRC	PRC	RMB1,000,000	—	69.6%	Development and provision of mobile games
深圳市奇樂無限軟件開發有限公司 (i)	PRC	PRC	RMB100,000	—	69.6%	Development and provision of mobile games

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Place of 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
廣州億通天下軟件開發有限公司[(i)]	PRC	PRC	USD3,000,000	—	69.6%	Development and provision of mobile games of smart phones
廣州盈正信息技術有限公司	PRC	PRC	RMB10,000,000	—	69.6%	Development and provision of mobile games of smart phones
OWX Hong Kong Limited	Hong Kong	Hong Kong	HK$100	—	69.6%	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	PRC	RMB100,000	—	69.6%	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	PRC	RMB3,400,000	–	100%	Development and provision of video in mobile phones

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

\# The subsidiaries of the Company are investment holding only and do not have any operations.

20. INTANGIBLE ASSETS

Group	Internet SNS assets HK$'000 (note (a))	Mobile TV assets HK$'000 (note (b))	Lottery-related platform HK$'000 (note (c))	E-shopping platform HK$'000 (note (d))	Mobile games licenses and platform HK$'000 (note (e))	Distribution networks HK$'000 (note (f))	Websites HK$'000 (note (g))	Service contracts HK$'000 (note (h))	Total HK$'000
Cost:									
At 1 January 2010	59,500	—	—	—	35,024	26,455	—	—	120,979
Business acquisitions	—	31,652	—	—	15,111	16,314	14,959	—	78,036
Additions	—	—	12,463	—	—	—	—	—	12,463
Exchange difference	—	—	—	—	1,457	1,337	—	—	2,794
At 31 December 2010	59,500	31,652	12,463	—	51,592	44,106	14,959	—	214,272
Additions	—	—	81,854	95,820	11,274	—	—	125,017	313,965
Exchange difference	—	1,452	—	—	2,426	2,022	686	—	6,586
At 31 December 2011	59,500	33,104	94,317	95,820	65,292	46,128	15,645	125,017	534,823
Amortisation:									
At 1 January 2010	—	—	—	—	(905)	(478)	—	—	(1,383)
Amortisation for the year	—	—	(1,039)	—	(5,079)	(3,107)	—	—	(9,225)
Exchange difference	—	—	—	—	(170)	(101)	—	—	(271)
At 31 December 2010	—	—	(1,039)	—	(6,154)	(3,686)	—	—	(10,879)
Amortisation for the year	—	—	(12,262)	(799)	(14,325)	(5,236)	(1,530)	(1,953)	(36,105)
Exchange difference	—	—	—	—	(665)	(287)	(34)	—	(986)
At 31 December 2011	—	—	(13,301)	(799)	(21,144)	(9,209)	(1,564)	(1,953)	(47,970)
Carrying amount:-									
At 31 December 2011	59,500	33,104	81,016	95,021	44,148	36,919	14,081	123,064	486,853
At 31 December 2010	59,500	31,652	11,424	—	45,438	40,420	14,959	—	203,393

20. INTANGIBLE ASSETS *(Continued)*

Company	Internet SNS assets HK$'000 (note(a))	Lottery related platform HK$'000 (note(c))	E-shopping platform HK$'000 (note(d))	Total HK$'000
Cost:				
At 1 January 2010	59,500	—	—	59,500
Additions	—	12,463	—	12,463
At 31 December 2010	59,500	12,463	—	71,963
Additions	—	81,854	95,820	177,674
At 31 December 2011	59,500	94,317	95,820	249,637
Amortisation:				
At 1 January 2010	—	—	—	—
Amortisation for the year	—	1,039	—	1,039
At 31 December 2010	—	1,039	—	1,039
Amortisation for the year	—	12,262	799	13,061
At 31 December 2011	—	13,301	799	14,100
Carrying amount:				
At 31 December 2011	59,500	81,016	95,021	235,537
At 31 December 2010	59,500	11,424	—	70,924

Notes:

(a) Internet Social Networking Services Assets ("Internet SNS 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 26.54%.

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

20. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(b) As referred to note 32(a), the Group acquired the Mobile TV Assets through acquisition of miniV.tv Group (as defined in note 32(a)). As the economic benefits arising from the Mobile 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 Mobile TV Assets. Under this approach, the incremental business enterprise value arising from the acquisition of the Mobile 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 Mobile TV Assets"; and (2) the business enterprise value of the Group under a scenario "WITHOUT the Mobile TV Assets". The incremental business enterprise value arising from the acquisition of the Mobile 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 26.54%.

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

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

(d) E-shopping platform includes client database, software technology, data storage and intellectual property rights of a shopping website, with estimated useful life of five years. It is tested for impairment and there is no indication that it needs to be impaired.

(e) The Group acquired the mobile game licenses and platform through acquisition of Dragon Joyce Group (as defined in note 24), with estimated useful life of seven years. It is tested for impairment and there is no indication that it needs to be impaired.

As referred to note 32(d), the Group acquired the mobile game licenses and platform through acquisition of 3GUU Group (as defined in note 32(d)), with estimated useful life of two to five years. It is tested for impairment and there is no indication that it needs to be impaired.

(f) The Group acquired the distribution networks through acquisition of Dragon Joyce Group (as defined in note 24), with estimated useful life of ten years. It is tested for impairment and there is no indication that it needs to be impaired.

As referred to note 32(b), the Group acquired the distribution networks through acquisition of OWX Group (as defined in note 32(b)), with estimated useful life of seven years. It is tested for impairment and there is no indication that it needs to be impaired.

(g) As referred to note 32(c), the Group acquired the websites through acquisition of Pinzheng Group (as defined in note 32(c)), with estimated useful life of ten years. It is tested for impairment and there is no indication that it needs to be impaired.

(h) As referred to note 32(e), the Group acquired a service contract through acquisition of subsidiary. Service contract represented an 8-years sport lottery sales contract dated 24 September 2011 entered with Qinghai Province Sports Lottery Administration Center, where the Group has the right to perform sport lottery sales through mobile and internet in Qinghai Province. 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	
	2011 HK$'000	2010 HK$'000
Within 1 month	134,126	92,669
2 to 3 months	30,460	22,192
4 to 6 months	26,136	2,492
7 to 12 months	4,471	1,132
Over 1 year	44	65
	195,237	118,550

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

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

	2011 HK$'000	2010 HK$'000
Neither past due nor impaired	165,410	107,498
Less than 1 month past due	16,348	7,243
1 to 3 months past due	8,199	3,340
More than 3 months past due	5,280	469
	195,237	118,550

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	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Other receivables	3,009	6,172	—	—
Deposits	5,740	5,317	2,684	2,684
Prepayments	431,720	389,410	—	—
	440,469	400,899	2,684	2,684

Notes:

Included in prepayments was prepaid cost for advertising space of HK$412,100,000 (2010: HK$382,653,000). The director is of the opinion that all the amounts are expected to utilise no more than twelve months after the reporting period.

23. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	2,366	2,125
Work-in-progress	57	299
Finished goods	134	3
	2,557	2,427

24. OTHER FINANCIAL ASSETS

	2011 HK$'000	2010 HK$'000
Available-for-sale financial assets:-		
Compensation arising from profit guarantee arrangement of		
– OWX Group	21,952	—
– Dragon Joyce Group	15,477	—
	37,429	—

(i) Pursuant to the profit guarantee arrangement as disclosed in note 32(b), the Company is entitled to recover the related consideration shares at no cost as the actual result of OWX Group (as defined in note 32(b)) for the year ended 31 December 2011 is less than the relevant profit target. The Company has decided not to recall the consideration shares and asked the vendors to dispose of the related shares to settle the compensation by cash. Compensation is determined on the agreed number of shares to be disposed of at their fair value at the end of reporting period. The Compensation is classified as available-for-sale financial asset in the consolidated statement of financial position.

(ii) Pursuant to the purchase agreement for acquisition of Dragon Joyce and its subsidiaries ("Dragon Joyce Group") dated 9 October 2009, the Company is entitled to a compensation for the shortfall in actual result of Dragon Joyce Group for the relevant profit target. The compensation is estimated based on the relevant shares at fair value at the end of reporting period and will be settled by cash. The compensation is classified as available-for-sales financial assets in consolidated statement of financial position.

25. TRADE PAYABLES

Generally, the credit term received from suppliers of the Group is 30 days. An ageing analysis of year end trade payables is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Current or less than 1 month	6,665	11,198
1 to 3 months	4,648	3,197
More than 3 months but less than 12 months	344	129
	11,657	14,524

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Payable for acquisition of intangible assets (note 20(d))	52,820	682	52,820	682
Dividend payable to non-controlling interests	23,364	—	—	—
Payable for acquisition of subsidiaries	—	104,037	—	104,037
Other payables	23,652	18,216	1,510	2,713
Accruals	9,544	8,250	—	—
	109,380	131,185	54,330	107,432

27. DEFERRED TAXATION

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

	Group
	Fair value adjustments
	HK$'000
At 1 January 2010	9,014
Business acquisitions	6,781
Credit to profit or loss for the year	(1,234)
Exchange difference	381
At 31 December 2010	14,942
Credit to profit or loss for the year	(2,093)
Exchange difference	638
At 31 December 2011	13,487

27. DEFERRED TAXATION *(Continued)*

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

	Group	
	2011	2010
	HK$'000	HK$'000
Unused tax losses	6,789	13,423

Out of the tax losses of the Group as at 31 December 2011, approximately HK$2,231,000 (2010: HK$6,510,000) has an expiry period of five years since 2010.

No deferred tax liability has been recorded on temporary differences of HK$740,565,000 (2010: HK$423,173,000) 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.

28. SHARE CAPITAL

	2011	2010
	HK$'000	HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	500,000	500,000
Issued and fully paid:		
2,614,140,724 (2010: 2,398,864,996) ordinary shares of HK$0.01 each	26,141	23,989

28. 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 2010	2,266,427,996	22,664
Exercise of shares options	129,257,000	1,293
Shares issued for acquisition of assets (i)	3,180,000	32
At 31 December 2010	2,398,864,996	23,989
Exercise of shares options (ii)	8,214,000	82
Shares issued for acquisition of assets (i)	1,370,000	14
Shares issued for acquisition of assets (iii)	92,756,000	927
Placing of new shares (iv)	90,000,000	900
Repurchase of shares (v)	(12,206,000)	(122)
Share issued for acquisition of subsidiaries (vi)	132,585,788	1,326
	2,711,584,784	27,116
Less: consideration shares which are subject to recall (vi)	(97,444,060)	(975)
At 31 December 2011	2,614,140,724	26,141

Notes:

(i) On 19 July 2010, the Group acquired certain intangible assets. The consideration was satisfied by cash of HK$2,275,000 and the issuance of 4,550,000 consideration shares of the Company, of which 3,180,000 and 1,370,000 consideration shares were issued in 2010 and 2011 respectively.

(ii) During the year, certain options were exercised to subscribe for 8,214,000 ordinary shares in the Company at consideration of HK$9,473,000 of which HK$82,000 was credited to share capital and the balance of HK$9,391,000 was credited to the share premium account. HK$1,648,000 has been transferred from the share-based compensation reserve to the share premium account accordingly.

(iii) On 14 November 2011, the Group acquired an intangible asset through acquisition of a subsidiary as described in note 32(e) to the financial statements. The consideration was satisfied by cash HK$10,000,000 and the issuance of 92,756,000 shares of the Company.

(iv) On 6 April 2011, the Company completed the placing of 90,000,000 shares which was issued at a price of HK$2.26 per shares.

(v) During the year, the Company repurchased 12,206,000 ordinary shares from the securities market at an average price of HK$1.13 per share.

(vi) As disclosed in note 30, included in the shares issued for acquisition of subsidiaries were 97,444,060 shares which are subject to lock-up and dealing restrictions and adjustments. These shares are classified as financial liabilities until the date when the relevant restrictions are released.

29. SHARES TO BE ISSUED

The 1,370,000 consideration shares for acquisition of certain intangible assets in 2010 were issued on 27 April 2011 and the amount was transferred to share capital and share premium accordingly.

30. CONSIDERATION SHARES

	Group and the Company	
	2011	2010
	HK$'000	HK$'000
Fair value of consideration shares for business acquisition – OWX Group (note (i))	23,415	68,867
Fair value of consideration shares for business acquisition – Pinzheng Group (note (ii))	26,998	84,699
Fair value of consideration shares for business acquisition – 3GUU Group (note (iii))	48,980	164,640
	99,393	318,206

(i) As referred to note 32(b), as part of the consideration for the acquisition of 70% of business in OWX Group (as defined in note 32(b)), the Company was required to issue 28,694,372 new shares to the vendors at a price of HK$2.33 per share. All the consideration shares were issued on 13 January 2011. As the consideration shares are subject to lock-up and dealing restrictions and adjustments as detailed in note 32(b), they were classified as financial liabilities and subsequently re-measured to fair value. During the year, the actual result of OWX Group did not meet the profit target and therefore the vendors are required to compensate the Company. Details are disclosed in note 24(i).

During the year, 5,738,874 shares were re-measured to fair value until the date of release of lock-up and dealing restriction and transferred to equity accordingly in January 2011.

The remaining 22,955,498 shares, which were subject to adjustment which is principally based on OWX Group's profit for the years ending 31 December 2011 and 2012, were still classified as financial liabilities in the consolidated statement of financial position and re-measured to fair value at end of the reporting period.

A fair value gain of HK$31,678,000 (2010: HK$2,009,000 fair value loss) was recognised in profit and loss accordingly.

30. CONSIDERATION SHARES *(Continued)*

(ii) As referred to note 32(c), as part of the consideration for the acquisition of business in Pinzheng Group (as defined in note 32(c)), the Company was required to issue 35,291,416 new shares to the vendors at a price of HK$2.54 per share. All the consideration shares were issued on 21 January 2011. As the consideration shares are subject to lock-up and dealing restrictions and adjustments as detailed in note 32(c), they were classified as financial liabilities and subsequently re-measured to fair value.

During the year, 8,822,854 shares were re-measured to fair value until the date of release of lock-up and dealing restriction and transferred to equity accordingly in January 2011.

The remaining 26,468,562 shares, which were subject to adjustment which is principally based on Pinzheng Group's profit for the years ending 31 December 2011,2012 and 2013, were still classified as financial liabilities in the consolidated statement of financial position and re-measured to fair value at end of the reporting period.

A fair value gain of HK$36,527,000 (2010: HK$4,941,000) was recognised in profit and loss accordingly.

In 2010 and 2011, 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 number of consideration shares to be issued is considered necessary.

(iii) As referred to note 32(d), as part of the consideration for the acquisition of 70% interest in 3GUU Group (as defined in note 32(d)), the Company was required to issue 68,600,000 new shares to the vendors at price of HK$2.4 per share. All the consideration shares were issued on 4 January 2011. As the consideration shares are subject to lock-up and dealing restrictions and adjustments as detailed in note 32(d), they were classified as financial liabilities and subsequently re-measured to fair value.

During the year, 20,580,000 shares were re-measured to fair value until the date of release of lock-up and dealing restriction and transferred to equity accordingly in January 2011.

The remaining 48,020,000 shares, which were subject to adjustment which is principally based on 3GUU Group's profit for the years ending 31 December 2011,2012 and 2013, were still classified as financial liabilities in the consolidated statement of financial position and re-measured to fair value at end of the reporting period.

A fair value gain of HK$66,268,000 (2010: Nil) was recognised in profit and loss accordingly.

In 2010 and 2011, 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 number of consideration shares to be issued is considered necessary.

31. RESERVES

Company

	Share premium HK$000 (Note (a))	Other reserves HK$000 (Note (b))	Share-based compensation reserve HK$000 (Note (c))	Retained profits/ (accumulated losses) HK$000	Total reserves HK$000
Balance at 1 January 2010	1,361,496	76,838	26,708	(339,497)	1,125,545
Total comprehensive income for the year	—	—	—	(36,390)	(36,390)
Exercise of share options	202,555	—	(21,456)	—	181,099
Shares issued for acquisition of the assets (note 28(i))	7,060	—	—	—	7,060
Recognition of share-based payment expense (note 35)	—	—	13,616	—	13,616
Transfer upon cancellation of share options (note 35)	—	—	(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**
Total comprehensive income for the year	—	—	—	116,434	116,434
Exercise of share options (note 28(ii))	11,039	—	(1,648)	—	9,391
Shares issued for acquisition of assets in prior year (note 28(i))	3,083	—	—	—	3,083
Shares issued for acquisition of assets, net of acquisition cost (note 28(iii))	106,669	—	—	—	106,669
Consideration share for business acquisitions(note 32)	82,467	—	—	—	82,467
Recognition of share-based payment expense (note 35)	—	—	17,680	—	17,680
Transfer upon cancellation of share options (note 35)	—	—	(92)	92	—
Placing of new shares (note 28(iv))	202,500	—	—	—	202,500
Repurchase of shares (note 28(v))	(13,631)	—	—	—	(13,631)
Dividend paid (note 15)	—	—	—	(36,293)	(36,293)
Balance at 31 December 2011	**1,163,238**	**523,125**	**34,587**	**44,064**	**1,765,014**

31. RESERVES *(Continued)*

NATURE AND PURPOSE OF RESERVES

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

(b) The Group's other reserves represent the difference between the amount by which the non-controlling interests are adjusted and the fair value of the shares of the subsidiary granted to employees. The Company's other reserves are 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 other reserves 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) Pursuant to the resolution of annual general meeting dated 27 May 2010, share premium of HK$800,000,000 was used to offset the entire amount of the accumulated losses of the Company as at 31 December 2009 and the remaining balance being credited to the other reserves of the Company.

32. ACQUISITIONS OF SUBSIDIARIES

(a) 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. ("Mobile TV Assets")

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

	HK$'000
Intangible assets	31,652
Property, plant and equipment	7,716
Investment in an associate	579
Bank balances and cash	153
Other receivables, deposits and prepayments	167
Other payables and accruals	(407)
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.

32. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(b) 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 established 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 acquisition was accounted for as business combination. The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	HK$'000	HK$'000
Intangible assets	16,314	
Other receivables	3,891	
Tax payable	(678)	
Deferred tax liabilities recognised upon fair value adjustments	(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 (note 30(i))	66,858	90,249
Goodwill		78,464

The above consideration transferred includes a performance-based contingent consideration adjustment, which is principally based on the acquiree's profit in a two-year period after acquisition. The adjustment will be settled after the end of the two-year period.

32. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

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 and gross contractual amount of other receivables amounted to HK$3,891,000. None of these receivables have been impaired and it is expected that the full contractual amount can be collected.

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. Distribution network 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 for the period ended 31 December 2010. If the acquisition had occurred on 1 January 2010, the Group's revenue and profit for the year ended 31 December 2010 would have been increased by HK$85,610,000 and HK$28,982,000 respectively.

32. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(c) 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, Mr. Wang Jijun and Mr. Liu Jicun ("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.

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

	HK$'000	HK$'000
Intangible assets	14,959	—
Other receivables, deposits and prepayments	5,281	
Deferred tax liabilities recognised upon fair value adjustments	(3,740)	16,500
The fair value of consideration transfer:		
Deferred consideration to be settled by cash in 2011	35,241	
35,291,416Consideration Shares (note 30(ii))	89,640	124,881
Goodwill		108,381

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.

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

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 intangible assets are identified.

32. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(c) *(Continued)*

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 revenue and profit for the period ended 31 December 2010. If the acquisition had occurred on 1 January 2010, the Group's revenue and profit for the year ended 31 December 2010 would have been HK$14,326,000.

(d) On 31 December 2010, the Group acquired 70% of the voting equity instruments of 3GUU Mobile Entertainment Industrial 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 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	1,496	
Mobile game rights and platforms	12,319	
Self-developed mobile games	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	(349)	55,969
Non-controlling interests		(16,790)
		39,179
The provisional fair value of consideration transfer:		
Deferred consideration to be settled by cash in 2011	68,796	
68,600,000 Consideration Shares (note 30(iii))	164,640	233,436
Goodwill		194,257

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.

32. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(d) *(Continued)*

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

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 consistently 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.

The acquisition is expected to 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 also 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 for the period ended 31 December 2010. If the acquisition had occurred on 1 January 2010, the Group's revenue and profit for the year ended 31 December 2010 would have been increased by HK$74,476,000 and HK$17,766,000 respectively.

32. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(e) On 14 November 2011, the Company acquired 100% issued and paid-up share capital of Ingo Neal Limited ("Ingo"), as detailed in the Company's announcement dated 3 November 2011. Ingo entered into a service contract dated 3 November 2011 with Beijing Beststar Venture Technology Development Limited ("Beststar") for 50 years regarding the provision of technical supporting services to, and receiving relevant service income from Beststar. The relevant service income represents 100% of the total revenue after business tax earned by Beststar. Beststar is a company incorporated in the PRC and had entered into sport lottery sales contracts dated 26 September 2011 with Qinghai Province Sports Lottery Administration Centre for 8 years, which is renewable. Pursuant to the sport lottery sales contracts, Beststar has the right to perform sport lottery sales through mobile and internet in Qinghai Province, the PRC.

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

	HK$'000	HK$'000
Service contract (note 20(h))		125,017
The fair value of consideration transfer:		
Cash	10,000	
92,756,000 Consideration Shares	115,017	125,017

The fair value of the shares issued was determined by reference to their quoted market price of HK$1.24 at the date of acquisition.

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

(f) Net cash outflow arising on acquisition of subsidiaries:

	2011	2010
	HK$'000	HK$'000
Cash consideration paid	**—**	63,251
Deferred consideration paid for acquisition in prior year	**104,037**	—
Transaction cost paid	**1,522**	—
Cash and cash equivalents acquired	**—**	(32,063)
	105,559	31,188

33. OPERATING LEASE ARRANGEMENTS

	Group		Company	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Minimum lease payments paid under operating leases during the year	15,555	11,504	2,686	2,359

At 31 December 2011, 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	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Within one year	15,781	12,566	2,303	2,303
In the second to fifth year, inclusive	42,364	38,823	768	3,070
	58,145	51,389	3,071	5,373

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.

34. COMMITMENTS

	2011 HK$'000	2010 HK$'000
Contracted, but not provided for:		
– Acquisition of property, plant and equipment	6,514	4,968

35. SHARE-BASED PAYMENT

(a) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

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

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

2011

	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 executive directors							
Zhang Lijun							
– 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
– on 7 November 2011	—	2,390,000	—	—	2,390,000	1.250	07/11/2011 to 06/11/2013
	2,300,000	2,625,000	—	—	4,925,000		
Wang Chun							
– 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
– on 7 November 2011	—	2,390,000	—	—	2,390,000	1.250	07/11/2011 to 06/11/2013
	2,300,000	2,625,000	—	—	4,925,000		
Sin Hendrick							
– 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
– on 7 November 2011	—	9,000,000	—	—	9,000,000	1.250	07/11/2011 to 06/11/2013
	20,650,000	17,350,000	—	—	38,000,000		
Li Xiaohua (i)							
– 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
	5,800,000	235,000	(2,280,000)	—	3,755,000		
	31,050,000	22,835,000	(2,280,000)	—	51,605,000		

35. SHARE-BASED PAYMENT *(Continued)*

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

2011 *(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 4 November 2010	300,000	—	—	—	300,000	2.248	04/11/2010 to 03/11/2013
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
	900,000	—	—	—	900,000		
Options granted to employees/others							
on 31 October 2008	3,100,000	—	(1,100,000)	(2,000,000)	—	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
on 8 September 2011	—	30,000,000	—	—	30,000,000	1.082	08/09/2011 to 07/09/2013
	40,868,000	43,945,000	(5,934,000)	(2,000,000)	76,879,000		
Total share options	72,818,000	66,780,000	(8,214,000)	(2,000,000)	129,384,000		

35. SHARE-BASED PAYMENT *(Continued)*

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

2010

	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 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 (i)							
– on 7 August 2009	2,000,000	—	—	—	2,000,000	1.170	07/08/2009 to 06/08/2014
– on 12 October 2009	1,800,000	—	—	—	1,800,000	1.680	12/10/2009 to 11/10/2014
– 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 (ii)							
– on 12 October 2009	1,500,000	—	—	—	1,500,000	1.680	12/10/2009 to 11/10/2014
	42,550,000	23,600,000	(33,600,000)	—	32,550,000		

35. SHARE-BASED PAYMENT *(Continued)*

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

2010 *(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) appointed as a director on 7 April 2010 and resigned on 31 August 2011
(ii) resigned as a director on 7 April 2010

On 3 January 2011, a total of 3,000,000 share options were granted to eligible participant and entitled the grantee to subscribe for ordinary shares at an exercise price of HK$2.430 per share, with closing price per share immediately before the date on which the share options were granted at HK$2.390. The options may be exercisable during the period from 3 January 2011 to 2 January 2014.

On 30 March 2011, a total of 20,000,000 share options were granted to directors of the Group and eligible participants and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$2.500 per share, with closing price per share immediately before the date on which the share options were granted at HK$2.430. The options may be exercisable during the period from 30 March 2011 to 29 March 2014.

35. SHARE-BASED PAYMENT *(Continued)*

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

On 8 September 2011, a total of 30,000,000 share options were granted to eligible participants and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$1.082 per share, with closing price per share immediately before the date on which the share options were granted at HK$1.040. The options may be exercisable during the period from 8 September 2011 to 7 September 2013.

On 7 November 2011, a total of 13,780,000 share options were granted to directors of the Group and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$1.250 per share, with closing price per share immediately before the date on which the share options were granted at HK$1.230. The options may be exercisable during the period from 7 November 2011 to 6 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.

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

	Granted on 3 January 2011	Granted on 30 March 2011	Granted on 8 September 2011	Granted on 7 November 2011
Fair value at grant date	HK$0.3303	HK$0.3906	HK$0.1740	HK$0.2655
Weighted average share price at grant date	HK$2.43	HK$2.50	HK$1.040	HK$1.250
Exercise price	HK$2.43	HK$2.50	HK$1.082	HK$1.250
Weighted average contractual life	1 year	1 year	1 year	1 year
Expected volatility	34.80%	39.99%	47.02%	54.6%
Expected dividend rate	0.60%	0.60%	0.60%	0.60%
Risk-free interest rate	0.3412%	0.3156%	0.1694%	0.1755%

The volatility assumption is measured at the average of the comparable companies' share price return volatility over the same period.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The fair value of the share options granted during the year was approximately HK$17,680,000 (2010: HK$13,616,000), all of which was recognised an equity-settled share-based payment expenses during the year.

The weighted average closing share price immediately before the dates of exercise of share options of the Company during the year was HK$2.32 (2010: HK$2.34)

In 2011, 2,000,000 (2010: 840,000) share options were lapsed. Accordingly, the related share-based compensation reserve of HK$92,000 (2010: HK$221,000) was released to retained profits/(accumulated losses).

(b) ALLOTMENT OF SHARES IN THE SUBSIDIARIES – CMGE TO THE DIRECTORS

On 23 August 2011, a total of 1,220,000 shares of CMGE were allotted to directors and employees of the Group at a price of US$0.001 per share.

The fair value of HK$5,774,000 of service received in return for shares granted is measured by reference to the fair value of CMGE's shares at the date of allotment and was recognised as equity-settled share-based payment expenses during the year.

36. 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	2011 HK$'000	2010 HK$'000
Service fee income earned from an associate, TMD 1	(i)	501,634	462,519
Service fee income earned from Sino Sky	(ii)	26,598	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.

(ii) Sino Sky Industry Group ("Sino Sky") is a shareholder of TMD2. Recoverable from Sino Sky of HK$27,196,000 is included in trade receivables at the end of reporting period.

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

	2011 HK$'000	2010 HK$'000
Short term benefits	18,525	12,723
Share-based payment expense	9,644	6,672
	28,169	19,395

(c) The amounts due from associates mainly arising from the trading transaction detailed in note (a)(i) above are unsecured, interest-free and repayable on demand.

36. RELATED PARTY TRANSACTIONS *(Continued)*

(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 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 balances with the related companies are as follows:

	2011 HK$'000	2010 HK$'000
Balance at 1 January	17,973	5,218
Balance at 31 December	2,834	17,973
Maximum amount outstanding during the year	17,973	17,973

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 2011 and 2010.

(e) The amount due to the related company is interest-free, unsecured and repayable on demand.

37. NOTES SUPPORTING STATEMENT OF CASH FLOWS

Significant non-cash transactions are as follows:

	2011 HK$'000	2010 HK$'000
Investment activities		
Equity consideration for acquisition of assets	(110,693)	(7,092)
Equity consideration for business acquisitions	—	(321,138)

38. 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.

39. FINANCIAL RISK MANAGEMENT

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

CREDIT RISK

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a concentration of credit risk as 23% (2010: 30%) and 69% (2010: 74%) 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. Based on past experience, management believes that no impairment allowance is necessary in respect of amount due from associates as there has not been a significant change in credit quality and the balance are still fully recoverable.

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

39. FINANCIAL RISK MANAGEMENT *(Continued)*

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.

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 30.

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 increase/decrease by HK$4,970,000 (2010: HK$15,910,000) and the financial liabilities would decrease/increase by HK$4,970,000 (2010: HK$15,910,000).

40. 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 2011 and 2010 may be categorised as follows:

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,019,825	785,892
Available-for-sale financial assets	37,429	—
Financial liabilities		
Financial liabilities at fair value through profit or loss:		
– Consideration shares	99,393	318,206
Financial liabilities measured at amortised cost	111,546	137,459

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, 2011, the consideration shares (Note 30) is measured at fair value, which is based on Level 1 fair value measurement hierarchy as defined in HKFSR 7 – unadjusted quoted prices in active market for identical assets and liabilities.

41. EVENTS AFTER THE REPORTING PERIOD

On 3 January 2012, a total of 5,000,000 share options were granted to eligible participants to subscribe for ordinary shares at an exercise price of HK$1.00 per share. The options may be exercisable during the period from 3 January 2012 to 2 January 2014.

On 6 February 2012, a total of 25,835,712 share options of CMGE were granted to Dr. Zhang Lijun, executive director and substantial shareholder of the Company, Ms. Wang Chun, executive director and associate of substantial shareholder of the Company, Mr. Sin Hendrick, executive director of the Company and other eligible participants who are not directors or substantial shareholders of the Company, to subscribe for ordinary shares at an exercise price of US$0.605 per CMGE share. The options may be exercisable during the period from 6 February 2012 to 5 February 2017.

42. 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 7 March 2012.

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				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover					
Continuing operations	**950,072**	767,591	298,702	65,922	58,400
Discontinued operations	**–**	–	–	–	6,426
	950,072	767,591	298,702	65,922	64,826
Profit/(loss) for the year					
Continuing operations	**399,393**	349,714	109,883	(122,538)	(74,058)
Discontinued operations	**–**	–	–	–	11,872
	399,393	349,714	109,883	(122,538)	(62,186)
Attributable to:					
Owners of the Company	**370,688**	325,428	105,307	(121,004)	(59,680)
Non-controlling interests	**28,705**	24,286	4,576	(1,534)	(2,506)
	399,393	349,714	109,883	(122,538)	(62,186)

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**1,482,023**	1,185,518	679,788	370,248	325,659
Current assets	**1,491,585**	1,177,729	591,476	311,968	690,470
Current liabilities	**(264,649)**	(497,450)	(21,962)	(66,390)	(16,887)
Net current assets	**1,226,936**	680,279	569,514	245,578	673,583
Non-current liabilities	**(13,487)**	(14,942)	(9,014)	(23)	(359,646)
Net assets	**2,695,472**	1,850,855	1,240,288	615,803	639,596