

第1视频®
VODONE.com
VODONE LIMITED

(Incorporated in Bermuda with limited liability)
Stock code: 82

Interim Report 2012



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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

CORPORATE GOVERNANCE COMMITTEE

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

COMPANY SECRETARY

Mr. Kwok Chi Keung, Andy

AUDITORS

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

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STOCK CODE

00082

Condensed Consolidated Statement of Comprehensive Income

The board of directors (the "Board") of VODone Limited (the "Company" or "VODone") announces that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012, are as follows:

		Six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
	Notes		
Revenue	4	251,781	583,400
Cost of revenue		<u>(83,755)</u>	<u>(91,101)</u>
Gross profit		168,026	492,299
Other gains and losses	5	17,119	(20,958)
Selling and marketing expenses		(13,300)	(249,735)
Administrative expenses		(67,129)	(69,554)
Finance cost		(468)	(17)
Share of (loss)/profit of associates		<u>(2,756)</u>	<u>690</u>
Profit before income tax	6	101,492	152,725
Income tax expense	7	<u>(13,552)</u>	<u>(19,453)</u>
PROFIT FOR THE PERIOD		87,940	133,272
Other comprehensive income:			
Exchange differences arising on translation		<u>(22,835)</u>	<u>40,688</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>65,105</u>	<u>173,960</u>
Profit attributable to:			
Owners of the Company		75,293	111,395
Non-controlling interests		<u>12,647</u>	<u>21,877</u>
		<u>87,940</u>	<u>133,272</u>
Total comprehensive income attributable to:			
Owners of the Company		52,458	152,083
Non-controlling interests		<u>12,647</u>	<u>21,877</u>
		<u>65,105</u>	<u>173,960</u>
Earnings per share			
– Basic (HK Cents)	8	<u>2.73</u>	<u>4.38</u>
– Diluted (HK Cents)	8	<u>2.73</u>	<u>4.36</u>

Condensed Consolidated Statement of Financial Position

	Notes	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	9	47,659	50,016
Interests in associates	10	38,419	41,175
Goodwill	11	889,261	898,344
Intangible assets		715,818	486,853
Deposits for acquisition of property, plant and equipment		5,482	5,635
		<u>1,696,639</u>	<u>1,482,023</u>
CURRENT ASSETS			
Trade receivables	12	178,721	195,237
Other receivables, deposits and prepayments		451,103	440,469
Inventories	13	2,197	2,557
Other financial assets		–	37,429
Amounts due from associates	19(d)	307,775	425,223
Amounts due from related companies	19(c)	2,137	2,834
Bank balances and cash		510,325	387,836
		<u>1,452,258</u>	<u>1,491,585</u>
CURRENT LIABILITIES			
Trade payables	14	14,789	11,657
Other payables and accruals		27,966	109,380
Other financial liabilities		94,068	–
Deposits received		704	982
Amount due to a related company		53	53
Consideration shares		32,449	99,393
Taxation		17,392	43,184
		<u>187,421</u>	<u>264,649</u>
NET CURRENT ASSETS		<u>1,264,837</u>	<u>1,226,936</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,961,476	2,708,959
NON-CURRENT LIABILITIES			
Deferred tax liabilities		12,672	13,487
NET ASSETS		<u>2,948,804</u>	<u>2,695,472</u>

Condensed Consolidated Statement of Financial Position

		As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
	Notes		
EQUITY			
Share capital	15	30,981	26,141
Reserves		<u>2,801,475</u>	<u>2,565,630</u>
Equity attributable to owners of the Company		2,832,456	2,591,771
Non-controlling interests		<u>116,348</u>	<u>103,701</u>
TOTAL EQUITY		<u>2,948,804</u>	<u>2,695,472</u>

Condensed Consolidated Statement of Changes in Equity

Attributable to owners of the Company

	Share capital HK\$'000	Shares to be issued HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Share-based compensation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2011 (audited)	23,989	3,096	771,111	479,761	18,647	110,906	347,814	95,531	1,850,855
Profit or loss	-	-	-	-	-	-	111,395	21,877	133,272
Other comprehensive income	-	-	-	-	-	40,688	-	-	40,688
Total comprehensive income for the period	-	-	-	-	-	40,688	111,395	21,877	173,960
Shares issued on exercise of share options	71	-	9,367	-	(1,597)	-	-	-	7,841
Placing of shares	900	-	202,500	-	-	-	-	-	203,400
Share issued for deferred consideration for:									
- Acquisition of assets	13	(3,096)	3,083	-	-	-	-	-	-
- Business acquisitions	1,326	-	341,725	-	-	-	-	-	343,051
Recognition of share-based payment expense	-	-	-	-	9,157	-	-	-	9,157
Dividends declared	-	-	-	-	-	-	(36,293)	-	(36,293)
At 30 June 2011 (unaudited)	26,299	-	1,327,786	479,761	26,207	151,594	422,916	117,408	2,551,971
At 1 January 2012 (audited)	26,141	-	1,163,238	484,473	34,587	201,031	682,301	103,701	2,695,472
Profit or loss	-	-	-	-	-	-	75,293	12,647	87,940
Other comprehensive income	-	-	-	-	-	(22,835)	-	-	(22,835)
Total comprehensive income for the period	-	-	-	-	-	(22,835)	75,293	12,647	65,105
Shares issued on exercise of share options	62	-	7,988	-	(1,506)	-	-	-	6,544
Placing of shares	1,600	-	143,319	-	-	-	-	-	144,919
Bonus issue	2,718	-	-	-	-	-	(2,718)	-	-
Transfer of deferred share for business acquisitions in prior year	460	-	51,127	-	-	-	-	-	51,587
Expenses related to shares issued for acquisition of assets	-	-	(1,000)	-	-	-	-	-	(1,000)
Recognition of share-based payment expense	-	-	-	-	7,920	-	-	-	7,920
Dividends declared	-	-	-	-	-	-	(21,743)	-	(21,743)
At 30 June 2012 (unaudited)	30,981	-	1,364,672	484,473	41,001	178,196	733,133	116,348	2,948,804

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	205,648	(47,437)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(278,281)	(185,943)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>199,411</u>	<u>174,948</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	126,778	(58,432)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	(4,289)	1,752
CASH AND CASH EQUIVALENT AT BEGINNING OF PERIOD	<u>387,836</u>	<u>399,282</u>
CASH AND CASH EQUIVALENT AT END OF PERIOD	<u>510,325</u>	<u>342,602</u>

Notes to Financial Statements

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

The condensed consolidated financial statements should be read in conjunction with the Group’s 2011 annual financial statements. The accounting policies of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2011.

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

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

In the current period, the Group has applied, for the first time, the new and revised standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA, which are effective for the Group’s financial year beginning on 1 January 2012.

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective.

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

3. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-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.zgzcw.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 mobile communication products.

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	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	93,271	293,678	17,636	132,532	140,874	157,190	251,781	583,400
Reportable segment profit/(loss)	57,419	105,542	3,736	70,052	43,120	75,372	104,275	250,966
Interest revenue	211	43	–	–	658	392	869	435
Depreciation and amortisation	(11,212)	(5,004)	(12,263)	(3,874)	(13,037)	(7,364)	(36,512)	(16,242)
Income tax expenses	(14,102)	(5,803)	–	(5,310)	550	(8,340)	(13,552)	(19,453)
	As at	As at	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2012	2011	2012	2011	2012	2011	2012	2011
Reportable segment assets	1,508,407	1,389,514	623,434	618,848	942,668	875,608	3,074,509	2,883,970
Additions to non-current assets	255,233	103,410	–	207,417	7,679	17,358	262,912	328,185
Reportable segment liabilities	8,663	21,239	21,902	22,066	41,348	80,005	71,913	123,310

Notes to Financial Statements

3. SEGMENT REPORTING *(Continued)*

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

	Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000
Profit before income tax		
Reportable segment profit	104,275	250,966
Other gains and losses	18,736	(24,845)
Share of (loss)/profit of an associate	(2,756)	690
Unallocated corporate expenses	<u>(18,763)</u>	<u>(74,086)</u>
Consolidated profit before income tax	<u>101,492</u>	<u>152,725</u>
	As at 30 June 2012 HK\$'000	As at 31 December 2011 HK\$'000
Assets		
Reportable segment assets	3,074,509	2,883,970
Other financial assets	–	37,429
Interests in associates	38,419	41,175
Bank balances and cash	30,133	8,135
Unallocated corporate assets	<u>5,836</u>	<u>2,899</u>
Consolidated total assets	<u>3,148,897</u>	<u>2,973,608</u>
Liabilities		
Reportable segment liabilities	71,913	123,310
Other payables and accruals	–	54,346
Other financial liabilities	94,068	–
Consideration shares	32,449	99,393
Unallocated corporate liabilities	<u>1,663</u>	<u>1,087</u>
Consolidated total liabilities	<u>200,093</u>	<u>278,136</u>

3. SEGMENT REPORTING *(Continued)*

(C) GEOGRAPHICAL INFORMATION

During 2012 and 2011, 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 19(a), the Group's associate is the only major customer with whom transactions have exceeded 10% of the Group's revenues. Revenues from the Group's associate in the tele-media segment amounted to approximately HK\$93,271,000 (2011: HK\$293,268,000) and revenues from a lottery-related segment amounted to approximately HK\$17,636,000 (2011: HK\$108,636,000).

4. REVENUE

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

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue		
Tele-media business:		
– Advertising and service income	93,271	293,678
Lottery-related business:		
– Service and advertising income	17,636	132,532
Mobile games business:		
– Sales of mobile games and handset design business	<u>140,874</u>	<u>157,190</u>
	<u>251,781</u>	<u>583,400</u>

Notes to Financial Statements

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Fair value gain/(loss) on consideration shares	17,867	(24,845)
Interest income	869	436
Net foreign exchange losses	(1,214)	(83)
Others	(403)	3,534
	<u>17,119</u>	<u>(20,958)</u>

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	10,389	4,278
Amortisation of intangible assets	26,123	11,964
Carrying amount of inventories sold	3,923	11,404
Auditor's remuneration	50	50
Staff costs (excluding directors' remuneration)		
Salaries and wages	29,157	40,481
Pension fund contributions	5,098	6,766
Share-based payments	6,287	5,620
	<u>40,542</u>	<u>52,867</u>

7. INCOME TAX EXPENSE

Taxation in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current tax – the PRC – provision for the period	14,225	18,716
Current tax – Hong Kong Profits Tax – provision for the period	142	1,319
Deferred taxation – attributable to the reversal of temporary differences	<u>(815)</u>	<u>(582)</u>
	<u>13,552</u>	<u>19,453</u>

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the subsidiaries of the Group is calculated based on the statutory tax rate of 25%, except for the following subsidiaries.

VODone Information Engineering Co., Ltd. is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%.

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.

The Hong Kong profits tax of OWX Hong Kong Limited is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the period.

Notes to Financial Statements

8. EARNING PER SHARE

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Basic earnings per share	<u>2.73</u>	<u>4.38</u>
Diluted earnings per share	<u>2.73</u>	<u>4.36</u>

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

PROFIT

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Profit for the period attributable to owners of the Company, used in the basic and diluted earnings per share calculation	<u>75,293</u>	<u>111,395</u>
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	2,754,436,710	2,545,110,675
Effect of dilution – share options	<u>690,585</u>	<u>9,915,134</u>
Weight average number of ordinary shares for basic earnings per share, adjusted for the effect of dilution	<u>2,755,127,295</u>	<u>2,555,025,809</u>

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$9,436,000 (2011: HK\$1,812,000).

10. INTERESTS IN ASSOCIATES

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Share of net liabilities	(21,339)	(18,583)
Goodwill	<u>59,758</u>	<u>59,758</u>
	<u>38,419</u>	<u>41,175</u>

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

Name of company	Place of incorporation and operation	Proportion of Ownership		Principal activity
		Ownership Interest held by the Group	Voting power held by the Company	
第一視頻數碼媒體技術有限公司 (VODone Datamedia Technology Co., Ltd.) ("TMD1")	PRC	49%	24.99%	Provision of tele-media business support and content services
北京迷你威網絡科技有限公司	PRC	49%	49%	Inactive

Notes to Financial Statements

10. INTERESTS IN ASSOCIATES *(Continued)*

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

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Total assets	261,210	386,326
Total liabilities	<u>(304,750)</u>	<u>(424,249)</u>
Net liabilities	<u>(43,540)</u>	<u>(37,923)</u>
Group's share of the associates' net liabilities	<u>(21,339)</u>	<u>(18,583)</u>
	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue	<u>100,430</u>	<u>311,890</u>
(Loss)/profit for the period	<u>(5,624)</u>	<u>1,408</u>
Group's share of the associates' (loss)/profit for the period	<u>(2,756)</u>	<u>690</u>

11. GOODWILL

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Balance at beginning of period/year	898,344	873,756
Adjustment to the cost of business combination	–	(15,477)
Exchange adjustments	<u>(9,083)</u>	<u>40,065</u>
Balance at end of period/year	<u>889,261</u>	<u>898,344</u>

Goodwill is allocated to the Group's cash generating units ("CGUs") identified to country of operation and business segment. The carrying amounts as at 30 June 2012 were related to the Group's tele-media service business and mobile games business in the PRC.

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

12. TRADE RECEIVABLES

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

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Within 1 month	19,994	134,126
2 to 3 months	41,241	30,460
4 to 6 months	12,807	26,136
7 to 12 months	104,606	4,471
Over 1 year	<u>73</u>	<u>44</u>
	<u>178,721</u>	<u>195,237</u>

The credit period of the Group's trade receivables range from 30 days to 180 days.

Notes to Financial Statements

13. INVENTORIES

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Raw materials	2,072	2,366
Work-in-progress	70	57
Finished goods	55	134
	<u>2,197</u>	<u>2,557</u>

14. TRADE PAYABLES

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

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Within 1 month	6,862	6,665
2 to 3 months	6,979	4,648
More than 3 months	948	344
	<u>14,789</u>	<u>11,657</u>

15. SHARE CAPITAL

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
<i>Authorised:</i>		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
3,098,057,138 (31 December 2011: 2,614,140,724) ordinary shares of HK\$0.01 each	<u>30,981</u>	<u>26,141</u>

15. SHARE CAPITAL (Continued)

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

	Number of ordinary shares	Share capital HK\$'000
At 1 January 2011	2,398,864,996	23,989
Exercise of shares options	8,214,000	82
Shares issued for acquisition of assets	94,126,000	941
Placing of new shares	90,000,000	900
Repurchase of shares	(12,206,000)	(122)
Shares issued for acquisition of subsidiaries	<u>132,585,788</u>	<u>1,326</u>
	2,711,584,784	27,116
Less: consideration shares which are subject to recall	<u>(97,444,060)</u>	<u>(975)</u>
At 31 December 2011	<u>2,614,140,724</u>	<u>26,141</u>
At 1 January 2012	2,711,584,784	27,116
Exercise of shares options	6,200,000	62
Placing of new shares	160,000,000	1,600
Bonus issue	<u>271,778,478</u>	<u>2,718</u>
	3,149,563,262	31,496
Less: consideration shares which are subject to recall	<u>(51,506,124)</u>	<u>(515)</u>
At 30 June 2012 (unaudited)	<u>3,098,057,138</u>	<u>30,981</u>

16. OPERATING LEASE ARRANGEMENTS

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Minimum lease payments paid under operating leases	<u>8,434</u>	<u>9,760</u>

Notes to Financial Statements

16. OPERATING LEASE ARRANGEMENTS (Continued)

At 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Within one year	15,670	15,781
In the second to fifth years, inclusive	<u>35,715</u>	<u>42,364</u>
	<u>51,385</u>	<u>58,145</u>

17. COMMITMENTS

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Contracted, but not provided for:		
– Acquisition of property, plant and equipment	<u>5,910</u>	<u>6,514</u>

18. SHARE-BASED PAYMENT TRANSACTIONS

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

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

During the six months ended 30 June 2012, a total of 6,200,000 share options were exercised by the participants. The proceeds were used as general working capital of the Group.

19. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Service fee income earned from the associate, TMD1	<u>110,907</u>	<u>401,904</u>

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

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Short term benefits	7,800	11,954
Share-based payment expense	<u>1,633</u>	<u>3,537</u>
	<u>9,433</u>	<u>15,491</u>

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

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the audit committee of the Company and approved and authorised for issue by the Board on 30 August 2012.

Management Discussion and Analysis

OPERATING RESULTS

Turnover of the Group for the six months ended 30 June 2012 amounted to HK\$251,781,000, representing a decrease of around 57% as compared with the corresponding period last year. Profit attributable to the owners of the Company was HK\$75,293,000, a decrease of 32% from the last corresponding period. In view of the challenging business environment, the Group has implemented effective cost control measures to cut down costs so as to preserve profits.

In addition, net profit attributable to owners of the Company for the period also included depreciation of property, plant and equipment and amortization of intangible assets, a non-cash expense, totaling HK\$36,512,000 (six months ended 30 June 2011: HK\$16,242,000).

BUSINESS REVIEW AND DEVELOPMENT

Tele-media business

VODone Portal (www.v1.cn)

Since the change of name in 2012 from VODone News Portal (第一視頻新聞網) to VODone Portal (第一視頻網), VODone Portal has successfully upgraded both its contents and format which effectively demonstrated its strengths in the mini-video news segment. Being dedicated to providing the most updated, swift and comprehensive mini-video news, VODone Portal has been widely recognized by a broad range of viewers and become a leading mini-video news portal in China. It ranked the top four in "Internet TV" of iResearch in June 2012.

Trend of mini-video news

Through years of implementation, mini-video news proves to be a sustainable mode for the development of online video media business. According to "The 30th Statistical Report on Internet Development in China" published by China Internet Network Information Center (CNNIC), the number of people viewing video through internet increased by approximately 25 million in the first half of 2012. On the other hand, information from China Internet Data Platform (www.cnidp.cn) showed that there had been a rising number of and deeper penetration by audience. During the second quarter of 2012, the average one-day visiting time per audience increased by almost 10 minutes comparing to the previous quarter. With steady growth in the impact and number of audience of VODone Portal, the Group moved closer to the goal of becoming the largest video news platform in China, and laid a solid foundation for increasing market share in online advertising.

Staff training

To implement the development strategy of the Group, during the first half of 2012, VODone focused on implementing a talents development and training scheme, improving its workforce, and building a core team. With the comprehensive award policy and series of training, the Group succeeded in raising team morale and notably enhancing work efficiency. As a result, contents of the website had grown richer and our relentless pursuit for contents quality had also yielded excellent result in the industry. The staff training had provided talents for the Company's sustainable development.

Recognition of the government and netizens



VODone Portal has been persistent in taking a rightful stance, guiding the society to adhere to the national core values, and performing its role as an exponent of culture. It insists on rationality, truthfulness, fairness, objectivity and impartiality in news reporting. Through our continuous persistence and efforts, the Group has won

recognition among netizens. In addition, our credibility in the society had been firmly established, and we were awarded with numerous honors from a variety of social institutions.



Each of the prizes we received symbolized our perseverance in adhering to VODone Portal's core values. As an influential new media in China or even in the world, VODone Portal bundles video news in an innovative format, provides netizens with intelligent information searching service, and reviews and comments on financial, entertainment and lifestyle news with independent, objective, intelligent and multi-angled analyses to identify the underlying meanings and values out of incidents.

Direction for development

With the industrial framework of China internet TV having substantially taken shape in 2012, despite intensifying competition, VODone Portal had been able to gain more attention from netizens and the news industry with its unique competitive edge and its persistency on principles in today's fast growing internet video market in China. VODone will focus on the six channels, namely, news, social topics, finance, entertainment, sports and automobiles, and excel various levels of the website so as to enrich users' experience. The upcoming launch of live show will help us strengthen and further develop our leading position.

Management Discussion and Analysis

Overview and prospect of the operation of V1pin (www.v1pin.com)

In recent years, the annual growth rate of China's consumer spending on luxury products increases rapidly that firmly establishes China as one of the most significant consumer markets for world's luxury products. V1pin (V1品) is the Group's first online shopping platform for top luxury products, which offers a range of products including quality leather cases and bags, premium apparels, innovative furniture, and valuable collectors' items. In V1pin, customers can source from lots of products of international top-tier luxury brands, leading fashionable brands, and designer brands. The strong position in user resources of the Group enables V1pin to conduct in-depth marketing activities towards the premium group of users from a larger pool of the Group's users. On the other hand, V1pin stays focused on a small group of wealthy individuals and employs a focused and precise marketing strategy to them. We also work with banks, prestigious clubhouse and leading corporate clients. We have formed strategic partnerships with CCTV Home Shopping (中視購物) and APEC that will see V1pin to work closely with these renowned partners in marketing.

In future, V1pin will endeavour to become the largest website for luxury products in China and the leader in this industry. The Group provides a platform to customers for purchasing luxury products through its advanced platform, professional technology, strengthened operation, distinguishing quality and outstanding after-sales services. Along with our customers, we "enjoy the luxury, enrich ourselves" and create strong profit for the Group.

Lottery-related business

A new trend of lottery betting led by new products

In June 2012, a new milestone product "Lottery 365" (彩票365) was officially launched. It is a mobile application which is the first of its kind that integrates weibo interactivity, live match broadcasting, sports betting, lottery betting and experts' analyses. Owing to the trust of lottery players, the Group's services manage to stay in the top spot amid the fierce competition of today's mobile applications.

In May 2012, the mobile application "Lottery 365 European Cup in Your Pocket" (彩票365口袋歐洲杯) was launched in "360 Shoujizhushou" (360手機助手), a mobile applications download platform. It was immediately recommended by other platforms, including Android market, GoMarket, aMarket, Baidu App Engine, waptw.com, Tencent App Center and Sohu App Center, with the number of users downloading the application growing rapidly. The beta version of "Lottery 365", a mobile application integrating live broadcasting and mobile lottery of European Cup, had been launched in China Telecom's E surfing platform and covered 80 million subscribers of China Telecom. Users might download "Lottery 365" via E surfing. Following that, the Group co-operated with TCL to pre-install "Lottery 365" into TCL's Android phones during the year. In the same month, "Lottery 365" was successfully launched in Apple's iOS App Store and ranked number one on the list of free applications in China sports category since the first day of launch.

"Lottery 365" features the following functions:

1. Live score and goals score alert: synchronization of live scores with betting on match results and goals score alerts enable users to closely follow the development of matches;
2. Notification of lottery results: synchronization of lottery results notification with that of the China Welfare Lottery Center and Sports Lottery Administration Center enables users to have immediate access to lottery results;
3. Live sports channel: it provides live broadcasting of sport events (such as European Cup/European Championship/Olympic Games) through mobile phones, and thereby supplies essential information for match betting;
4. "The Forecasts from All Directions"(八方预测) : it releases analyses on Shuangsejiu (双色球) and predictions on football lottery exclusively by renowned media specialists;
5. Lottery weibo: it is interconnecting with Sina weibo and Tencent weibo that enables users to share information among lottery players and friends; and
6. Lottery betting: it covers the nation's mainstream welfare lotteries and sports lotteries such as Shuangsejiu, Fucai 3D (福彩3D), Daletou (大乐透), Shengfucai (胜负彩) and Renxuanjiu (任选九), Jingcaidanchang (竞彩单场).



Management Discussion and Analysis

Websites and contents upgrade

Since the end of 2011, Zhongguozucaiwang (中國足彩網) (www.zgzcw.com) has been continuously enhancing its content by adding more experts' predictions and analyses, which was highly pursued and well-received by lottery players, thus lifting Diyicai (第一彩) (www.diyicai.com) and Zhongguozucaiwang to new level of development in their specific areas. Moreover, pre-game information was updated everyday to provide more precise and relevant information for soccer and match game betting, and this had gained much popularity and praises from sports fans and lottery players. A good variety of original contents had helped characterize our website and rendered us to stand out from our competitors.



A new version of “The Forecasts from All Directions” was launched, featuring a simple and more user-friendly interface that allows easy browsing of all important information by users, which had better catered for the needs of users, facilitated lottery placements and enhanced users’ experiences.

In addition, with the introduction of the new forum page, the number of average daily postings had increased to 5,000. The forum created an open platform for lottery players to chat and exchange their ideas freely.

During the European Cup, we launched new lottery-related games such as win and place. These games were highly popular as they had met the betting requirements of lottery players and provided lottery players with great convenience.

Creative and colorful marketing activities brought a lot of users to the websites

Since 2012, our lottery-related business division has been committed to launching promotion activities to boost sales volume and number of users. Promotion activities like “Guess PK Game” and “Lottery Match” were highly pursued by our players, which not only increased the number of new users, but also raised the degree of loyalty and activeness of users.

Improved partnership and channels for lottery sales

1. Media partnership

During the first half of 2012, articles exchange and cooperation were established with more than 30 media organizations including Sohu (搜狐), Beijing Evening News (北京晚報), China Sports Lottery News (中國體彩報), NetEase (網易), Sina (新浪), Beijing Youth Daily (北京青年報), China News Service (中新社), People's Daily (人民日報) and The Beijing News (新京報), providing a strong foundation for promotion and page viewing of the website.

2. Channels of partnership

In 2012, the Group lined up with China National Broadcasting Network (央廣廣播電視網絡台) ("CNBN"), PPTV, Huawei (華為) IPTV, SmartTrans of Australia, TCL Mobile Payment Platform, Talkweb Information System (湖南拓維資訊), Doudougou (豆豆果) and Zhongsou (中搜網) for business cooperation and has maintained close working relations. Among these business partners, the partnership with CNBN begun in June this year. During the European Cup, cooperation with PPTV brought flow volume to nearly 100,000 with more than 10,000 active users per day. The partnership with TCL Mobile Payment Platform was also a success. In addition, we worked with Talkweb Information System to introduce SMS betting system in Heilongjiang.

These business partnerships further increased the popularity of the entire lottery group of Diycail and Zhongguozucaiwang, thereby laying a solid foundation for future development.

3. Celebrity partnership

To benefit from celebrity effect, the Group cemented respective partnerships with Huang Jianxiang (黃健翔), China's celebrated sports commentator and the Chief Marketing Officer of Diycail of VODone, and Zhou Liang (周亮), China's popular football commentator. Accordingly, Jianxiang Bet Club (健翔彩吧) and Zhou Liang Bet Club (周亮彩吧) had been set up and attracted many sports supporters and fans, adding fuels to our drive for sales growth.



Management Discussion and Analysis

Recognition for the website's contribution to charity lottery

During the 2012 European Cup, Zhongguozucaiwang teamed up with Huawei Device (華為終端), Tencent Sport (騰訊體育) and Sohu Application Center (搜狐應用中心) to host four sports charitable events entitled "Beer Party for European Cup" (暢飲歐洲杯). These events generated great response among sports fans and lottery buyers.

Establishment of "The Alliance of Beijing Sports Charity" marks China's first charitable organization in the sports community. The objective of the alliance is to capitalize on the strength of corporations for the benefit of sport charity. Through cooperation with governments, academic institutions, mass media, general public and other charitable organizations, the alliance strives to advocate the spirit of sports charity and call for more active participation in China's sports charity and charitable sports lottery by the whole community, so that people from all walks of life in China will be able to enjoy the fun of sports. From time to time, the alliance holds charitable events in connection with major sports events such as European Cup, Olympic Games and FIFA World Cup, allowing participation of a large number of sports fans, as well as linking up entertainment with charity, and promoting the development of China sports charitable and sports lottery businesses.

Mobile games business

Mobile games and handset design business

According to a report by Analysys International, VODone's subsidiary China Mobile Games and Entertainment Group Limited ("CMGE") held the largest market share of 18.7% in terms of revenue generated by mobile games developers in China during 2011, being the No. 1 in the market. During the first half of 2012, CMGE continued with its strategy in operation which had proven track record. With the merits from cooperating with its strategic partners and years of experience in games development, as well as holding the largest market share in the segment, CMGE retains the leading position in the mobile games market. A comprehensive product coverage will help the Group continue to grow rapidly and consolidate its position as the largest mobile games developer and operator in China. As of the end of the second quarter of 2012, CMGE had over 400 employees, including more than 250 members from research and development. The Group also owned and created over 470 popular mobile games, including 160 feature phone games and 310 smartphone games.

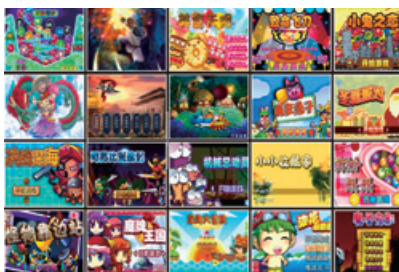
Feature phone mobile games business

Many major chipset manufacturers and mobile platform providers have introduced Smart Feature Phones, which have comparable users' experience of smartphones', since the last quarter of 2011. The Group took this opportunity to introduce an upgraded version of Funbox game platform named "Aiwan" to meet the change of market demands. In the first half of 2012, our Group had released more than 135 self-developed mobile game products on the upgraded game platform Aiwan. Supported with many feature phone games available to players, the new game platform acquires the design of a smartphone app store and also advantages of the mobile motion control, to bring to players a refreshing and similar effects and experience of smartphones. These new games and Funbox (Aiwan) game platform have become greatly sought-after by major mobile phone chipset manufacturers, mobile phone solution designers and mobile phone manufacturers, and have further consolidated the market share of the feature phone games of the Group with material effect.

With respect to games pre-installments for feature phones, the Group has strengthened its co-operations with various mobile phone chipset manufacturers including MediaTek Inc. ("MTK"), MStar, Spreadtrum, and Coolsand to further enhance its technical support and marketing. MTK completed its strategic investment in CMGE in May 2012. Up to the end of the first half of 2012, we had pre-installed our feature phone games and games platform on over 14 million feature phones. At the half year point of 2012, there were approximately 21 million paying users for our feature phone games, represented a significant growth compared to the corresponding period of last year. These cooperations will consolidate the competitive strengths of the Group and increase its market share in the feature phone games market.



Smartphone mobile games business



The Douwan (豆玩) Social Game Community is a game product developed for Android smartphone platforms. Players of Douwan can experience a wide range of quality single player mobile games including "Douwan Match", where a player can fight with over 180,000 registered Douwan players. Players can enjoy the high-quality mobile social games and also to develop mobile social interactions by meeting other players. Another characteristic of Douwan is the offering of specialized "Douwan SDK" for single players game and online game developers. Upon joining the "Douwan SDK", the game developers can attract extensive user groups by making use of the existing strong marketing channels of Douwan, and reduce the difficulties that they may encounter in promotion. Also, Douwan SDK attracts more game developers to cooperate with the Group through its profit sharing system to achieves a win-win situation.

Management Discussion and Analysis

To further promote Douwan Social Game Community, the Group entered into an exclusive strategic partnership with Dragon TV in May 2012, in respect of its new reality game show, "Maidongmenglifang" (脈動夢立方) (The original program: The Cube). Accordingly, this game show had been added into Douwan platform for play. TV viewers and mobile players can look up the game rules of "Menglifang" (夢立方) in Douwan and play the game in 3D animation developed by CMGE. By playing the game on Douwan, players not only have chances to win exquisite gifts from the show sponsors, but also become part of the live audiences and participate in the game in person.



The Group and China Mobile has collaborated in single player mobile games bundles business. The business unit was eventually expanded into three units, namely "G+ Haoyouduo" (G+好又多), "G+ Gamewang" (G+遊戲王) and "3GUU Games Tui Jian Bao" (3GUU人氣推薦包) this year as compared to only one game bundle in 2011. The revenue of "G+ Haoyouduo" ranked top in China Mobile games bundles business in the first six months of 2012.

We are currently in development and migration of four social games with new smartphone Android platform, including real time strategy game "Shengyan Army Group" (聖炎軍團) (cartoon version), multi-rounded strategy casual game "The War of Bahuang" (八荒之戰), 2D multi-rounded game "The Myth" (仙魔錄) (Chinese painting version) and surreal multi-player dungeon strategy game "Xunqin" (尋秦). The launch of these new online games have diversified the variety of our games, expanded our services to various types of game players, and provided a solid foundation for future development.

To explore overseas business opportunities for smartphone games, the Group has established cooperation with GREE, a social networking service provider in Japan, to promote our award winning game "Paopaoxiyou" (泡泡西游) on GREE platform with greatest efforts. This marks a milestone of the Group's expansion to overseas market.



Furthermore, in the first half of the year, the Group won a number of notable awards in the game industry. Among them, “Kangri Yingxiong Zhuan”(抗日英雄傳) was awarded the “Most Popular Downloaded Game on China Mobile Platform”. In addition, another highlighting social game “Paopaoxiyou” was named as one of the ten “Most Popular National Mobile Games”. As “Paopaoxiyou” game has received various awards and appreciation by a mass of game players, and in order to cater for needs of different mobile platform users and extend users’ coverage, the Group launched the Android version of “Paopaoxiyou” with additional in-game premium features. The title of the game had also been changed to “Purple Wings”(紫翼), which better suits the nature of the game. Not only the game has been warmly accepted by Android players, but has also become a hot topic among the game industry. Leveraging on effective marketing strategies and successful launch of various popular games in the first two quarters, as of 30 June 2012, single player smartphone game bundles have about 3.6 million monthly subscribers. The Group has achieved remarkable results in the social game segment, as there are over 13.8 million registered users, and the number of paying users reaches around 0.32 million.

In August 2012, Forbes China named CMGE as one of the 30 Top Mobile Businesses in China, that was a testimony of the success of our operation and philosophy of development.

Mobile handset design

The mobile handset design market is very competitive. The handset design department will uphold the Group’s enterprise spirit and divide the development plan for the second half of this year into two parts:

- 1) Demands for feature phones have remained strong in the foreign market. Therefore, we will keep our focus on the foreign market expansion, and will design highly-competitive feature phones to diversify the product line.
- 2) For the first half of 2012, the Group had completed the tests of mobile handset design on smartphone Android platforms, and accumulated relevant valuable experience. Highly matured MTK Android-based handset designs are expected to launch in the third quarter of this year. With continuous development of smartphones and enhancement of mobile chipsets, we will keep ourselves on track with the market information, engage in continuous development and innovation, and make every effort for timely introduction of faster and more affordable smartphone solutions that command better margins, enhance our competitiveness and gain more market share.

Management Discussion and Analysis

Prospect

For the second half of 2012, the Group will continue to research and develop on feature phone games and social online games. Partnerships between the Group and mobile chipset manufacturers, handset design houses and mobile phones manufacturers have strengthened and maintained our competitive edge in the games pre-installation stream. For the second half of this year, around 30 new single player games will be launched such as “Plants war”(植物大戰), “Crazy Jump”(瘋狂跳躍), “Parrot cat”(學舌貓) and “E-girlfriend”(電子女友). Promotion of the feature phone version of “Angry Birds”, which CMGE co-developed with Rovio Entertainment Ltd, is expected to be launched in full force soon. As for smartphone, the Group is in the process of developing four Android mobile social games and launching approximately 40 single player games.

By the end of 2012, it is anticipated that the number of registered members of Douwan game platform will exceed 1 million. We believe that as we are launching more new games in game bundles business, under the cooperation with China Mobile we can retain our leading position in China Mobile’s monthly game zone. Moreover, it is expected that we can further extend the lead in terms of revenue between ourselves and other competitors in the monthly game bundles business.

Subsequent to the reporting period, the Company announced on 15 August 2012 a proposed spin-off of CMGE (the “Proposed Spin-off”) by way of a separate listing of the American depositary shares (the “ADSs”) of CMGE on the Nasdaq Global Market (the “Listing”), which is to be achieved by a distribution in specie by the Company of the ADSs. The Stock Exchange of Hong Kong Limited has confirmed that the Company may proceed with the Proposed Spin-off. Details of the Proposed Spin-off and the Listing were disclosed in the Company’s announcement dated 15 August 2012. CMGE has applied for the Listing with the Nasdaq Global Market and made relevant filings with the U.S. Securities and Exchange Commission in connection with the distribution of the ADSs. Dealings in the ADSs on the Nasdaq Global Market are expected to commence at 9:30 a.m. on 25 September 2012 (New York time). Further announcement will be published by the Company to update the status of the Listing pursuant to the Proposed Spin-off as and when appropriate.

FINANCIAL REVIEW

BUSINESS SEGMENTS

	Tele-media business		Lottery-related business		Mobile games business		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue from external customers	<u>93,271</u>	<u>293,678</u>	<u>17,636</u>	<u>132,532</u>	<u>140,874</u>	<u>157,190</u>	<u>251,781</u>	<u>583,400</u>
Reportable segment profit	<u>57,419</u>	<u>105,542</u>	<u>3,736</u>	<u>70,052</u>	<u>43,120</u>	<u>75,372</u>	<u>104,275</u>	<u>250,966</u>
Interest revenue	211	43	-	-	658	392	869	435
Depreciation and amortisation	(11,212)	(5,004)	(12,263)	(3,874)	(13,037)	(7,364)	(36,512)	(16,242)
Income tax expenses	(14,102)	(5,803)	-	(5,310)	550	(8,340)	(13,552)	(19,453)

TELE-MEDIA BUSINESS

The tele-media business contributed a turnover of HK\$93,271,000 to the Group for the six months ended 30 June 2012, representing a decrease of around 68% as compared with HK\$293,678,000 for the corresponding period last year. The decrease in the revenue of tele-media business was mainly due to the deterioration of the general business environment in China in the first half of the year, as a result of which the relevant advertising and service income suffered in particular. Segment profit decreased to HK\$57,419,000 for the period, representing a decrease of around 46% over the same period last year. However, as the Group managed to control the associated selling expenses effectively, the profit for the period recorded a growth of approximately 11% compared to the second half of 2011.

LOTTERY RELATED BUSINESS

For the six months ended 30 June 2012, the Group recorded a lottery-related income of HK\$17,636,000, representing a decrease of around 87% as compared with the corresponding period last year. Profit of the segment decreased 95% to HK\$3,736,000 when compared with last year's corresponding period.

The drop in revenue and profit from lottery-related business was mainly due to the impacts from government policies. In the first half of this year, the Chinese government regulated internet lottery selling through policy, which resulted in a decrease in revenue from lottery-related business. From the perspective of the macro-environment, the Chinese government has issued many regulatory policies in relation to the lottery-related business, which reflected a general trend in regulating the development of internet lottery market and business. Although such measures have negative impact on the relevant revenue and earning of the Group in the short run, the Group, as a large-scale enterprise, believes that with the support of the relevant regulatory policies, its lottery-related business will see rapid and steady development in the long run.

Management Discussion and Analysis

MOBILE GAMES BUSINESS

For the first half of 2012, revenue decreased to HK\$140,874,000, representing a decrease of 10% as compared with the corresponding period in 2011. Segment profit was decreased to HK\$43,120,000, representing a decrease of around 43% over last year.

Overall mobile games sales are satisfactory, in particular, smartphone games sales have increased by 17% in the first half of 2012 as compared to the corresponding period last year.

Additional operating costs were incurred during the period as OWX is transitioning from a business principally engaging in feature phones handset design to smartphone handset design. Also, there were a HK\$6.9 million option cost and HK\$2 million expenses in relation to professional costs on private placement. On the other hand, depreciation and amortization costs increased by around HK\$6 million in the first half of 2012 as compared to the corresponding period last year due to the amortization of more mobile games sourced from third parties in response to growing market demand.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had HK\$510,325,000 cash and cash equivalents (31 December 2011: HK\$387,836,000). Working capital was HK\$1,264,837,000 as compared with the working capital of HK\$1,226,936,000 at the end of last year. The Group did not have any bank borrowings as at 30 June 2012 and 31 December 2011. Since the Group generates most of the revenue and incurs most of the costs in Renminbi, there was no material foreign exchange risk. As at 30 June 2012, the Group's current ratio was 7.7 (31 December 2011: 5.6). Taking into account the financial resources available, the directors of the Company are of the view that the Group will have sufficient working capital for its present requirement.

During the period, the Group recorded a net cash inflow from operating activities amounting to HK\$205,648,000 as compared with the corresponding period in 2011 recording a net cash outflow from operating activities amounting to HK\$47,437,000.

CHARGES AND CONTINGENT LIABILITIES

As at 30 June 2012 and 31 December 2011, the Group had no charges on its assets and no material contingent liabilities.

CAPITAL STRUCTURE

As at 30 June 2012, the Group had total assets of HK\$3,148,897,000 (31 December 2011: HK\$2,973,608,000) which were financed by shareholders' funds of HK\$2,832,456,000 (31 December 2011: HK\$2,591,771,000), total liabilities of HK\$200,093,000 (31 December 2011: HK\$278,136,000) and minority interests of HK\$116,348,000 (31 December 2011: HK\$103,701,000).

On 3 May 2012, the Company and BOCI Asia Limited, inter alia, entered into a share placing and subscription agreement to place 160,000,000 new shares of the Company at a subscription price of HK\$0.93 per subscription share. Total gross proceeds from the subscription were HK\$148,800,000. The directors of the Company believe that the subscription will provide business development opportunities to the Group for its future development because it will broaden the shareholders' base and strengthen the capital base and financial position of the Company.

On 29 May 2012, the Company issued 271,778,478 bonus new shares of HK\$0.01 each on the basis of one new share for every ten shares held by the shareholders of the Company whose names appeared on the register of members of the Company on 8 May 2012, as approved by the shareholders of the Company at its annual general meeting held on 27 April 2012.

EMPLOYEES REMUNERATION AND BENEFITS

As at 30 June 2012, the Group had 739 employees in the PRC and Hong Kong. They include the management and the employees in administration, production and sales personnel. The Group regularly reviews 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 directors and other employees to encourage them towards enhancing the value of the Group and promote the long-term growth of the Group.

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

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2012.

Disclosure of Interests in the Share Capital of the Company

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

As at 30 June 2012, the directors of the Company and their associates had the following interests in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

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

Name of director	Capacity	Number of ordinary shares held	% of total issued share capital	Number of underlying shares in respect of the share option granted	% of total issued share capital
Zhang Lijun	Beneficial owner/ Interest of spouse	371,214,113 (Note 1)	11.79%	10,835,000 (Note 2)	0.34%
Wang Chun	Beneficial owner/ Interest of spouse	371,214,113 (Note 3)	11.79%	10,835,000 (Notes 4)	0.34%
Sin Hendrick	Beneficial owner	4,950,000	0.16%	41,800,000	1.32%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	–	–	330,000	0.01%
Wang Zhichen	Beneficial owner	1,100,000	0.04%	330,000	0.01%
Wang Linan	Beneficial owner	1,100,000	0.04%	330,000	0.01%

Note 1: Of these 371,214,113 shares, 355,264,113 shares are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 15,950,000 shares through the interest of his spouse, Ms. Wang Chun.

Note 2: Of these 10,835,000 share options, 5,417,500 share options are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 5,417,500 share options through the interest of his spouse, Ms. Wang Chun.

Note 3: Of these 371,214,113 shares, 15,950,000 shares are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 355,264,113 shares through the interest of her spouse, Dr. Zhang Lijun.

Note 4: Of these 10,835,000 share options, 5,417,500 share options are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 5,417,500 share options through the interest of her spouse, Dr. Zhang Lijun.

Disclosure of Interests in the Share Capital of the Company

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

(B) LONG POSITION IN THE ORDINARY SHARES AND UNDERLYING 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	Number of underlying shares in respect of the share option granted	% of total issued share capital
Zhang Lijun	Beneficial owner/ Interest of spouse	1,004,832	0.30%	3,039,494 (Note 1)	0.92%
Wang Chun	Beneficial owner/ Interest of spouse	1,004,832 (Note 2)	0.30%	3,039,494 (Note 3)	0.92%
Sin Hendrick	Beneficial owner	1,004,832	0.30%	3,039,495	0.92%

Note 1: Of these 3,039,494 share options, 1,519,747 share options are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 1,519,747 share options through the interest of his spouse, Ms. Wang Chun.

Note 2: Ms. Wang Chun is deemed to be interested in these shares through the interest of her spouse, Dr. Zhang Lijun.

Note 3: Of these 3,039,494 share options, 1,519,747 share options are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 1,519,747 share options through the interest of her spouse, Dr. Zhang Lijun.

Save as disclosed herein, as at 30 June 2012, 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, other than the directors of the Company whose interests are disclosed above, the Company was not aware of any persons who, had any interests or short positions in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO.

Share Option Schemes

THE COMPANY

On 27 April 2012, the shareholders of the Company approved a new share option scheme (the "New VODone Scheme") and adopted it on 30 April 2012; and terminated the share option scheme adopted on 7 June 2002 (the "Old VODone Scheme").

Upon the termination of the Old VODone Scheme, no further share options will be offered under the Old VODone Scheme. However, the share options granted prior to such termination shall continue to be valid and exercisable in accordance with the Old VODone Scheme.

Under the New VODone Scheme, the directors of the Company 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 New VODone Scheme and the relevant provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). No share options were granted, nor were there any share options outstanding under the New VODone Scheme at any time during the period.

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

	At 1 January 2012	Granted during the period (1 Jan - 30 Jun 2012)	Exercised during the period (1 Jan - 30 Jun 2012)	Lapsed during the period (1 Jan - 30 Jun 2012)	Adjusted upon the Bonus Issue <i>(Note 1)</i>	At 30 June 2012	Exercise price HK\$ <i>(Note 1)</i>	Exercise period
Old VODone Scheme								
Options granted to executive directors								
Zhang Lijun								
- on 4 November 2010	2,300,000	-	-	-	230,000	2,530,000	2.044	04/11/2010 to 03/11/2013
- on 30 March 2011	235,000	-	-	-	23,500	258,500	2.273	30/03/2011 to 29/03/2014
- on 7 November 2011	2,390,000	-	-	-	239,000	2,629,000	1.136	07/11/2011 to 06/11/2013
	<u>4,925,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>492,500</u>	<u>5,417,500</u>		
Wang Chun								
- on 4 November 2010	2,300,000	-	-	-	230,000	2,530,000	2.044	04/11/2010 to 03/11/2013
- on 30 March 2011	235,000	-	-	-	23,500	258,500	2.273	30/03/2011 to 29/03/2014
- on 7 November 2011	2,390,000	-	-	-	239,000	2,629,000	1.136	07/11/2011 to 06/11/2013
	<u>4,925,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>492,500</u>	<u>5,417,500</u>		
Sin Hendrick								
- on 12 October 2009	3,650,000	-	-	-	365,000	4,015,000	1.527	12/10/2009 to 11/10/2014
- on 4 November 2010	17,000,000	-	-	-	1,700,000	18,700,000	2.044	04/11/2010 to 03/11/2013
- on 30 March 2011	8,350,000	-	-	-	835,000	9,185,000	2.273	30/03/2011 to 29/03/2014
- on 7 November 2011	9,000,000	-	-	-	900,000	9,900,000	1.136	07/11/2011 to 06/11/2013
	<u>38,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,800,000</u>	<u>41,800,000</u>		
sub-total	<u>47,850,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,785,000</u>	<u>52,635,000</u>		

THE COMPANY (Continued)

	At 1 January 2012	Granted during the period (1 Jan - 30 Jun 2012)	Exercised during the period (1 Jan - 30 Jun 2012)	Lapsed during the period (1 Jan - 30 Jun 2012)	Adjusted upon the Bonus Issue (Note 1)	At 30 June 2012	Exercise price HK\$ (Note 1)	Exercise period
Options granted to independent non-executive directors								
Loke Yu (alias Loke Hoi Lam)								
– on 4 November 2010	300,000	–	–	–	30,000	330,000	2.044	04/11/2010 to 03/11/2013
Wang Zhizhen								
– on 4 November 2010	300,000	–	–	–	30,000	330,000	2.044	04/11/2010 to 03/11/2013
Wang Linan								
– on 4 November 2010	300,000	–	–	–	30,000	330,000	2.044	04/11/2010 to 03/11/2013
sub-total	900,000	–	–	–	90,000	990,000		
Options granted to employees/others								
on 7 August 2009	3,634,000 (Note 2 ii)	–	–	–	363,400	3,997,400	1.064	07/08/2009 to 06/08/2014
on 12 October 2009	5,820,000 (Note 2 ii)	–	–	–	582,000	6,402,000	1.527	12/10/2009 to 11/10/2014
on 4 November 2010	27,000,000 (Note 2 iii)	–	–	–	2,700,000	29,700,000	2.044	04/11/2010 to 03/11/2013
on 3 January 2011	3,000,000	–	–	–	300,000	3,300,000	2.209	03/01/2011 to 02/01/2014
on 30 March 2011	11,180,000 (Note 2 iv)	–	–	–	1,118,000	12,298,000	2.273	30/03/2011 to 29/03/2014
on 8 September 2011	30,000,000	–	(4,200,000)	–	2,580,000	28,380,000	0.984	08/09/2011 to 07/09/2013
on 3 January 2012	–	5,000,000	(2,000,000)	–	300,000	3,300,000	0.909	03/01/2012 to 02/01/2014
sub-total	80,634,000	5,000,000	(6,200,000)	–	7,943,400	87,377,400		
Total share options	129,384,000	5,000,000	(6,200,000)	–	12,818,400	141,002,400		

Note 1: The exercise prices and numbers of outstanding share options were adjusted for the effect of issue of bonus shares on the basis of 1 new ordinary share for every 10 ordinary shares held on 8 May 2012 as approved by the shareholders of the Company on 27 April 2012 (the "Bonus Issue").

Note 2 i): Of these 3,634,000 share options, 800,000 share options were held by an eligible participant who was once a director of the Company.

Note 2 ii): Of these 5,820,000 share options, 720,000 share options were held by an eligible participant who was once a director of the Company.

Note 2 iii): Of these 27,000,000 share options, 2,000,000 share options were held by an eligible participant who was once a director of the Company.

Note 2 iv): Of these 11,180,000 share options, 235,000 share options were held by an eligible participant who was once a director of the Company.

Share Option Schemes

THE COMPANY *(Continued)*

On 3 January 2012, a total of 5,000,000 share options were granted to eligible participants and entitled the grantees to subscribe for ordinary shares at an exercise price of HK\$1.00 (which was adjusted to HK\$0.909 following the Bonus Issue) per share, with closing price per share immediately before the date on which the share options were granted at HK\$1.02 (which was adjusted to HK\$0.927 due to the Bonus Issue). The options may be exercisable during the period from 3 January 2012 to 2 January 2014.

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 exercise price for the share options shall be determined in accordance with the CMGE Scheme and the relevant provisions of the Listing Rules.

On 27 April 2012, the shareholders of the Company approved the refreshment of the 10% scheme mandate limit under the CMGE Scheme. The total number of shares which may be issued upon exercise of all options to be granted under the CMGE Scheme, as refreshed, represents 10% of the shares of CMGE in issue as at 27 April 2012.

THE SUBSIDIARY (Continued)

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

	At 1 January 2012	Granted during the period (1 Jan - 30 Jun 2012)	Exercised during the period (1 Jan - 30 Jun 2012)	Lapsed during the period (1 Jan - 30 Jun 2012)	At 30 June 2012	Exercise price US\$ (Note 1)	Exercise period (Note 2)
CMGE Scheme							
Options granted to executive directors							
Zhang Lijun							
- on 6 February 2012	—	1,519,747	—	—	1,519,747	0.605	06/02/2012-05/02/2017
Wang Chun							
- on 6 February 2012	—	1,519,747	—	—	1,519,747	0.605	06/02/2012-05/02/2017
Sin Hendrick							
- on 6 February 2012	—	3,039,495	—	—	3,039,495	0.605	06/02/2012-05/02/2017
sub-total	—	6,078,989	—	—	6,078,989		
Options granted to employees/others							
- on 6 February 2012	—	19,756,723	—	—	19,756,723	0.605	06/02/2012-05/02/2017
sub-total	—	19,756,723	—	—	19,756,723		
Total share options	—	25,835,712	—	—	25,835,712		

Note 1: Unless otherwise approved or waived by the Stock Exchange, the exercise price in respect of the share option granted after the Company has resolved to seek a separate listing of CMGE on an international stock exchange (the "Listing") and up to the Listing date of CMGE must be not less than the new issue price (if any) of the shares on Listing and shall be adjusted to a price not lower than the new issue price as the board of directors of CMGE may deem appropriate. In the event that the Listing shall not take place, the above exercise price of US\$0.605 remains unchanged.

Note 2: 25% of the share options become exercisable by each grantee on the first anniversary of the date of grant. The remaining 75% of the share options become exercisable by each grantee in 12 equal quarterly tranches beginning one calendar quarter after the first anniversary of the date of grant.

Corporate Governance Practices

Save for the deviation as reported and discussed in the Corporate Governance Report as contained in the Company's 2011 Annual Report, none of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the period for the six months ended 30 June 2012, in compliance with the Code on Corporate Governance Practices which was revised and renamed as the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules with effect from 1 April 2012.

In January 2012, all the independent non-executive directors of the Company have entered into service agreements with the Company for specific terms of three years, directorships of which are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's bye-laws.

For the purpose of complying with the CG Code, the Board adopted the following in March 2012:

- Corporate governance policy
- Shareholder's communication policy
- Role and function of the directors of the Company
- Revised terms of reference for the audit committee of the Company
- Revised terms of reference for the remuneration committee of the Company
- Revised terms of reference for the nomination committee of the Company

Also, a corporate governance committee of the Company (the "Corporate Governance Committee") was set up in March 2012 with written terms of reference in compliance with the CG Code. The primary functions of the Corporate Governance Committee are to develop and review the Company's policies and practices on corporate governance in compliance with legal and regulatory requirements. The chairman of the Corporate Governance Committee is Mr. Wang Zhichen and other members are Dr. Zhang Lijun, Dr. Loke Yu (alias Loke Hoi Lam) and Mr. Wang Linan. The majority of members are independent non-executive directors of the Company.

Under the requirements of the Listing Rules and the CG Code, the memorandum of association and bye-laws of the Company, the respective terms of reference of the above committees of the Company and the role and function of the directors of the Company are published on the websites of Hong Kong Exchanges and Clearing Limited and the Company. The procedures for shareholders to propose a person for election as a director and to convene and put forward proposals at general meeting are set out in the Corporate Governance section of the Company's website. Shareholders may send their enquiries requiring the Board's attention to the Company's Hong Kong office or by email to info@vodone.com.hk or ir@v1.cn.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules during the period for the six months ended 30 June 2012. Having made specific enquiry to all the directors of the Company, each of them has confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by directors.

Purchase, Sale or Redemption of the Company's Listed Securities

Save as disclosed in note 15 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 period.

Other information

CHANGES IN INFORMATION WITH REGARDS TO DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the biographical details of the directors of the Company during the period for the six months ended 30 June 2012, since the publication of Company's 2011 Annual Report are set out as follows:

Under the amendment to the service agreement with Dr. Zhang Lijun, an executive director of the Company, with effect from 1 June 2012, the director's fee and remuneration of Dr. Zhang Lijun has been increased to HK\$6,300,000 per annum as recommended by the remuneration committee of the Company and determined by the Board with reference to his duties and responsibilities with the Company and the market rate for the position.

Under the amendment to the service agreement with Ms. Wang Chun, an executive director of the Company, with effect from 1 June 2012, the director's fee and remuneration of Ms. Wang Chun has been increased to HK\$3,150,000 per annum as recommended by the remuneration committee of the Company and determined by the Board with reference to her duties and responsibilities with the Company and the market rate for the position.

Under the amendment to the service agreement with Dr. Loke Yu (alias Loke Hoi Lam), an independent non-executive director of the Company, with effect from 1 June 2012, the director's fee of Dr. Loke Yu (alias Loke Hoi Lam) has been increased to HK\$168,000 per annum as recommended by the remuneration committee of the Company and determined by the Board with reference to his duties and responsibilities with the Company and the market rate for the position.

Other information

CHANGES IN INFORMATION WITH REGARDS TO DIRECTORS *(Continued)*

Under the respective amendment to the service agreement with Mr. Wang Zhichen and Mr. Wang Linan, independent non-executive directors of the Company, with effect from 1 June 2012, the director's fee of each of Mr. Wang Zhichen and Mr. Wang Linan has been increased to HK\$126,000 per annum as recommended by the remuneration committee of the Company and determined by the Board by reference to their duties and responsibilities with the Company and the market rate for the position.

Save as those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

REVIEW BY AUDIT COMMITTEE

The Group's unaudited interim financial results for the six months ended 30 June 2012 have been reviewed by the audit committee of the Company which comprises three independent non-executive directors of the Company.

By Order of the Board
VODone Limited
ZHANG Lijun
Chairman

Hong Kong, 30 August 2012