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VODONE LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 82)

BE THE ONE

Annual Report 2012


CMGE
中国手游娱乐集团
China Mobile Games and Entertainment Group
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NON-STOP
V1品
V1PIN.COM


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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.

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Corporate Information

BOARD OF DIRECTORS

Executive directors

Dr. Zhang Lijun *(Chairman)*
Ms. Wang Chun

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

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
26 Burnaby Street
Hamilton HM 11
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@v1.cn

STOCK CODE

00082

http://www.v1.cn

http://ir.vodone.com

Chairman's Statement

Chairman's Statement

WE LEVERAGED THE FOUNDATION LAID IN THE PAST AND CONTINUED TO GROW IN 2012

2012 undoubtedly marked a year of exceptional significance in the history of China. A number of keywords, such as global economic recovery, European debt crisis, soft landing of China's economy, austerity measures over the real estate sector, the 18th National Congress of the Communist Party of China and Diaoyu Islands, kept appearing in news headlines. Against this backdrop, having considered the macroeconomic environment diligently and with the long-term business development of VODone Limited ("VODone" or the "Company") as top priority, the management of the Company and its subsidiaries (the "Group") had made decisive decisions to enhance the Group's structure and expand new business lines so as to elevate the profitability of the Group steadily.

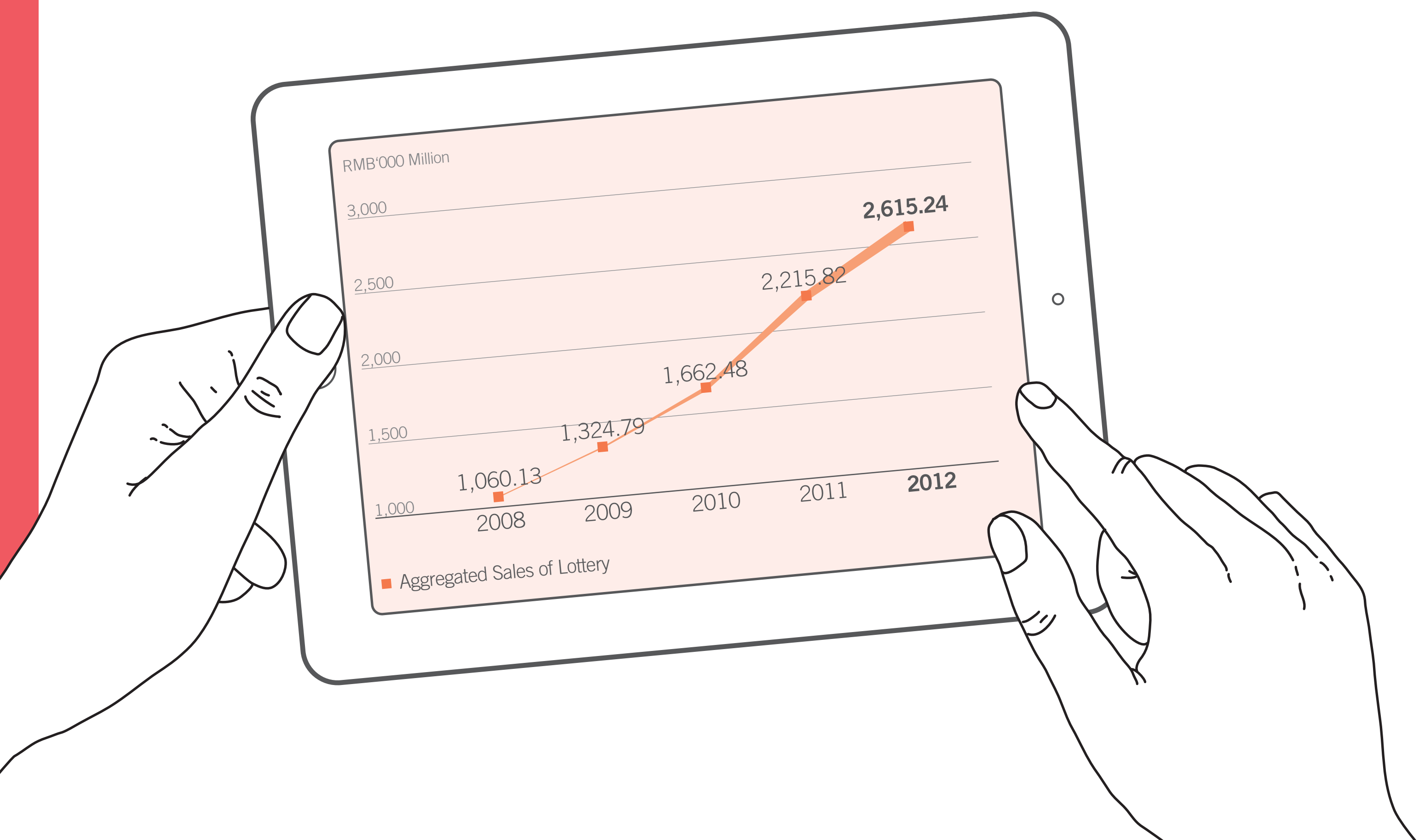
I. TELE-MEDIA BUSINESS

2012 was a year of notable development for VODone Portal (第一視頻網) (www.v1.cn). As the sole "mini-video news portal" media in China, VODone Portal is blessed with loyal fans and unique high level of influence, and power of influence continues to rise. However, we cannot afford to be complacent as the development of the internet has entered a "micro era" and "cloud era". The question as to how to further extend our influence, utilize the features of the media to a fuller extent, elevate the loyalty of users, improve profitability amid a highly competitive environment and further enhance the income structure of the Group's media business need to be seriously considered by the management. After thorough deliberation by the management, the answers to these questions are "changes"! Not only do we need to adapt to the changes in the market, become innovative and keep abreast with market development, but also to look for new growth drivers and breakthroughs under the strategy of active pursuit of "changes". Thus, VODone Portal has stood out by launching a series of innovative products including "mini-video, cloud news". And the mobile applications of "v1" of VODone Portal were rolled out under this background. In June 2012, VODone Portal began the set up and development of the "cloud" platform, and it took about six months to complete the set up of the "cloud news" platform, which was launched in February 2013. You may now watch a mini-video news portal powered and supported by the new "v1" system and cloud technology. With an all-in-one integration of multiple features including mobile mini-video news, internet live video broadcasting together with new media and social networking functions such as video mode friends-making and video community functions, the network has become a highly popular tool and platform for internet video news among internet users. The network's tremendous influence enables the Group's belief of "social justice" to be realised. At the same time, the huge page viewing volume will increase online advertising revenue and generate revenue for lottery and games channels. The management will step up its efforts in building VODone Portal as an internet video platform in China that is embedded with positive, stable growth and abundant opportunities, and become a leading brand of the Group.

II. LOTTERY-RELATED BUSINESS

2012 was a crucial year for the Mainland China. There were adjustments in various policies along with the leadership transition in China. Internet lottery sale related policies underwent continuous adjustments and changes, that considerably affected the development of the lottery-related business of the partners of VODone. The uncertainty of policies to some extent had led to the decline in the total volume of internet lottery sales. The impact was particularly notable in the first half of 2012. In order to respond to the rapidly changing market environment, the management of the Group had decisively strengthened the collaboration with domestic partners, and developed applications for purchase of lotteries through mobile phones in full throttle to capture the opportunities arising from the swift growth in the number of smartphone users. The management had also actively kept themselves well aware of the direction of the policies development related to internet lottery sales in order for them to determine the right trends for business development. As a result, performance of the lottery-related business began to rebound and achieved a relatively higher growth in the second half of the year. Also, there were increases in both the number of registered users and sales volume in the three lottery-related business lines including Zhongguozucaiwang（中國足彩網）(www.zgzcw.com), Diyicai（第一彩）(www.diyicai.com) and Lottery 365（彩票365）. In particular, Lottery 365 has evolved into the most famous mobile lottery buying application with the largest number of users and sales volume among its peers. On 1 January 2013, the inclusion of the internet as one of the legitimate channels for the sale of lottery tickets by the Ministry of Finance of the People's Republic of China was definitely an extremely good news to us. In the coming year, VODone and its partners will endeavour to strengthen their internal infrastructure in order to meet the relevant requirements of the country and cater for the market changes, with a vision to strive for growing into a leading player in China's internet lottery sales industry, and to continue the Group's trajectory of high growth.

AGGREGATED SALES OF LOTTERY FROM 2008 TO 2012 IN CHINA



III. MOBILE GAMES BUSINESS

China Mobile Games and Entertainment Group Limited ("CMGE"), a subsidiary of the Company, successfully achieved its goal of listing in the United States market in 2012. Against the background of the economic downturn in the United States and the low ebb of interest in China concept stocks in the second half of 2012, CMGE has succeeded in becoming the first domestic enterprise listed on the Nasdaq Global Market in the United States by way of introduction through its remarkable results and unabated efforts. The listing represented a "zero" breakthrough, and attracted much attention among the global capital markets. With the successful listing of CMGE, the management of the Group had fulfilled their commitment to the majority of investors and created shareholder values while striking a balance between risk exposures and rewards. Following the completion of business restructuring and successful product transformation of CMGE, I am confident that CMGE will become an important source of profit for the Group.

2012 was actually a year in which "we leveraged the foundation laid in the past and continued to grow". Owing to the year's main theme of "changes", the Group adjusted its business structure and profit model in response to policy changes and market trends. Based on our past proven records, we have laid a solid foundation for our future development. Looking ahead of 2013, we are fully confident of our prospect.

VODone Limited
Zhang Lijun
Chairman

Directors' Report


Email

Directors' Report

The directors of the Company (the "Directors") herein present their report together with the corporate governance report, share option schemes, management discussion and analysis, and the audited financial statements of the Group for the year ended 31 December 2012.

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 results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 62 to 145.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012.

SEGMENT INFORMATION

The segment information of the Group for the year ended 31 December 2012 is set out in note 6 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 146. 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 34 respectively to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws (the "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

Save as disclosed in note 28 and page 64 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 64 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution were approximately HK$802,490,000 (2011: HK$601,776,000). The Company's share premium account in the amount of HK$1,364,058,000 (2011: HK$ HK$1,163,238,000) 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	28%
• the five largest suppliers	32%

(b) Percentage of sales attributable to:

• the largest customer	49%
• the five largest customers	65%

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 (the "Chairman"). 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 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 (resigned on 3 October 2012, and currently is the executive director of CMGE.)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Loke Yu (alias Loke Hoi Lam)
Wang Zhichen
Wang Linan

In accordance with the Bye-laws, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Dr. Zhang Lijun and Mr. Wang Linan 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

Dr. Zhang Lijun

Chairman

Dr. Zhang Lijun, aged 49, holds a Doctoral degree in Economics. He is an executive Director, the Chairman of the Board and the chairman of the nomination committee of the Company (the "Nomination Committee"). He is the chairman of the board of directors of CMGE, which is a subsidiary of the Company and listed on the Nasdaq Global Market in the United States. Dr. Zhang holds the position as director for other members of the Group. He joined the Group in 2006. Dr. Zhang is also China's representative of 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. He is the spouse of Ms. Wang Chun.

Ms. Wang Chun

Ms. Wang Chun, aged 48, holds a Master degree in World Economics and is an executive Director and the chief operating officer of the Company. Ms. Wang has been the chief operating officer of the Company since 2005. Ms. Wang has ceased to be directors for other members of the Group. Ms. Wang 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. She is the spouse of Dr. Zhang Lijun.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS


Dr. Loke Yu

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 (the "Audit Committee") and the remuneration committee (the "Remuneration Committee") of the Company. He has over 38 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. Currently, he is also the company secretary of Minth Group Limited and serves as an independent non-executive director of Sino Distillery Group Limited (formerly known as Bio-Dynamic Group Limited), Chiho-Tiande Group Limited, China Fire Safety Enterprise Group Limited, Matrix Holdings Limited, SCUD Group Limited, Tianjin Development Holdings Limited, Winfair Investment Company Limited, and Zhong An Real Estate Limited, companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").


Mr. Wang Zhichen

Mr. Wang Zhichen, aged 71, 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. Currently, Mr. Wang is also 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. 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.

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

Mr. Wang Linan

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Wang Linan, aged 64, 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. Currently, he is also the general secretary of the China Scientific Films and Videos Association. Mr. Wang has more than 17 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.

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

SENIOR MANAGEMENT

Ms. Wang Xiang, aged 38, is the general manager of finance of the Company. She also undertakes and performs the role of the chief financial officer of the Company with the financial controller of the Company, Mr. Kwok Chi Keung, Andy. 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. Kwok Chi Keung, Andy, aged 45, is the financial controller and company secretary of the Company (the "Company Secretary"). He also undertakes and performs the role of the chief financial officer of the Company with the general manager of finance of the Company, Ms. Wang Xiang. 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. He has over 20 years experience in accounting, auditing and financial management. Before he joined the Company in 2008, he was the financial controller of two companies listed on the main board of the Stock Exchange.

CHANGES IN REMUNERATION WITH REGARDS TO DIRECTORS

Save as those disclosed above, pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the biographical details of the Directors during the course of the Director's term of office since the publication of Company's 2012 Interim Report are set out as follows:

Under the amendment to the service agreement with Dr. Zhang Lijun, an executive Director, with effect from 1 February 2013, the director's fee and remuneration of Dr. Zhang Lijun has been increased to HK$6,615,000 per annum as recommended by the Remuneration Committee and determined by the Board with reference to his duties and responsibilities with the Company and the market rate for the position.

Under the service agreement between CMGE and Dr. Zhang Lijun, with effect from 25 September 2012, the director's fee of Dr. Zhang Lijun is HK$20,000 per month as recommended by the compensation committee of CMGE and determined by the board of directors of CMGE with reference to his duties and responsibilities with CMGE and the market rate for the position.

Under the amendment to the service agreement with Ms. Wang Chun, an executive Director, with effect from 1 February 2013, the director's fee and remuneration of Ms. Wang Chun has been increased to HK$3,307,500 per annum as recommended by the Remuneration Committee 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, with effect from 1 February 2013, the director's fee of Dr. Loke Yu (alias Loke Hoi Lam) has been increased to HK$176,400 per annum as recommended by the Remuneration Committee and determined by the Board with reference to his duties and responsibilities with the Company and the market rate for the position.

Under the respective amendment to the service agreement with Mr. Wang Zhichen and Mr. Wang Linan, independent non-executive Directors, with effect from 1 February 2013, the director's fee of each of Mr. Wang Zhichen and Mr. Wang Linan has been increased to HK$132,300 per annum as recommended by the Remuneration Committee and determined by the Board by reference to their duties and responsibilities with the Company and the market rate for the position.

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 AND ASSOCIATED CORPORATION

As at 31 December 2012, 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 Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

(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 (Note 4)	0.34%
Sin Hendrick (Note 5)	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 were directly held by Dr. Zhang Lijun. Dr. Zhang was 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 were directly held by Dr. Zhang Lijun. Dr. Zhang was 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 were directly held by Ms. Wang Chun. Ms. Wang was 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 were directly held by Ms. Wang Chun. Ms. Wang was also deemed to be interested in the remaining 5,417,500 share options through the interest of her spouse, Dr. Zhang Lijun.

Note 5: Resigned on 3 October 2012.

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION *(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	10,274,274 (Note 1)	3.10%	3,039,494 (Note 2)	0.92%
Wang Chun	Beneficial owner/Interest of spouse	10,274,274 (Note 3)	3.10%	3,039,494 (Note 4)	0.92%
Sin Hendrick (Note 5)	Beneficial owner	9,316,345 (Note 6)	2.81%	3,039,495	0.92%

Note 1: Of these 10,274,274 shares, 6,977,614 shares were held by Big Step Group Limited which was wholly owned by Dr. Zhang Lijun.

Note 2: Of these share options carrying the rights to subscribe for 3,039,494 shares, share options carrying the rights to subscribe for 1,519,747 shares were directly held by Dr. Zhang Lijun. Dr. Zhang was also deemed to be interested in the remaining share options carrying the rights to subscribe for 1,519,747 shares through the interest of his spouse, Ms. Wang Chun.

Note 3: Ms. Wang Chun was deemed to be interested in these shares through the interest of her spouse, Dr. Zhang Lijun.

Note 4: Of these share options carrying the rights to subscribe for 3,039,494 shares, share options carrying the rights to subscribe for 1,519,747 shares were directly held by Ms. Wang Chun. Ms. Wang was also deemed to be interested in the remaining share options carrying the rights to subscribe for 1,519,747 shares through the interest of her spouse, Dr. Zhang Lijun.

Note 5: Resigned on 3 October 2012.

Note 6: Of these 9,316,345 shares, 8,276,863 shares were held by Silver Joyce International Limited which was wholly owned by Mr. Sin Hendrick.

Save as disclosed herein, as at 31 December 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.

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.

SUBSEQUENT EVENT

On 8 February 2013, a total of 2,739,495 share options of CMGE were granted to eligible participants who are not Directors or substantial shareholders of the Company, to subscribe for a total of 2,739,495 Class A ordinary shares of CMGE at an exercise price of US$0.605 per CMGE share. The options may be exercisable during the period from 8 February 2013 to 7 February 2018 with restrictions.

On 8 February 2013, a total of 1,030,100 share options of CMGE were granted to Dr. Zhang Lijun, an executive Director and a substantial shareholder of the Company, and other eligible participants who are not Directors or substantial shareholders of the Company, to subscribe for a total of 14,421,400 Class A ordinary shares of CMGE at an exercise price of US$6.50 per 14 CMGE shares (which equals to one ADS of CMGE). The options may be exercisable during the period from 8 February 2013 to 7 February 2018 with restrictions.

DIRECTORS' INTERESTS IN CONTRACTS

Except for those transactions set out in note 35 to the financial statements, no Director had a beneficial interest in any material contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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 of 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 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 35 to the financial statements. The Directors believe the relevant disclosure requirements under the Listing Rules are met, where applicable.

EMOLUMENTS OF DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

The Group remunerates its directors and staff primarily based on their contribution, responsibilities, qualification and experience under the remuneration policy set up by 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, the senior management and the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" section of this 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.

AUDIT COMMITTEE

The Audit Committee has been established 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
26 March 2013

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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 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.

The Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules was amended and revised as the Corporate Governance Code (the "Revised Code") which became effective on 1 April 2012. The Board carried out an extensive review on the corporate governance practices of the Company. Certain policies and terms of reference of various board committees were revised and adopted by the Board in March 2012 in order to strengthen the Company's corporate governance framework and adopt the code provisions under the Revised Code. The Company had applied and complied with the code provisions of the CG Code and the Revised Code throughout the year ended 31 December 2012 except as noted hereunder.

According to the code provision A.2.1 of the CG Code and the Revised Code, the roles of chairman and chief executive 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. The role of the chief executive 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 consider appointing an individual as chief executive when it is appropriate.

According to the code provision A.6.7 of the Revised Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Two of the independent non-executive Directors were unable to attend the annual general meeting and the special general meeting of the Company both held on 27 April 2012 due to various work commitments.

The Board shall continue to monitor and review the Company's corporate governance practices to ensure compliance.

BOARD OF DIRECTORS

BOARD COMPOSITION

The Board currently has five members, comprising two executive Directors and three independent non-executive Directors. Collectively, they bring a broad range of commercial, financial, technology, management and stewardship experiences and varied skills, expertise and qualifications 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. The role and function of the Directors are published on the websites of the Stock Exchange and the Company.

Dr. Zhang Lijun and Ms. Wang Chun is a couple. Save as disclosed above, there are no financial, business, family or other material/relevant relationships among members of the Board.

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.

ROLE AND RESPONSIBILITY OF 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 and acting honestly with due diligence, skill and care and in the best interest of the Company and its shareholders at all times.

BOARD MEETINGS AND ATTENDANCE OF DIRECTORS

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.

Pursuant to the Bye-laws, a Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board approving any contract or arrangement or proposal in which he or any of his associate(s) has/have a material interest, and if he shall do so, his vote shall not be counted (nor shall be counted in the quorum for that resolution). Questions arising at any meeting of the Board shall be decided by a majority of votes.

BOARD OF DIRECTORS *(Continued)*

BOARD MEETINGS AND ATTENDANCE OF DIRECTORS *(Continued)*

The Directors give sufficient time and attention of the Group's affair. The Directors play an active role in participating the Company's meetings through contribution of their professional opinions and active participation in discussion. The attendance record of each of the Directors for the Board meetings, the board committees meetings and the general meetings held during the year is listed as follows:

	Number of Meetings Attended/Meetings Held					
	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	Corporate Governance Committee meeting	General meeting
Executive Directors						
Zhang Lijun	17/17	n/a	3/3	1/1	1/1	2/2
Wang Chun	17/17	n/a	3/3	1/1	n/a	2/2
Sin Hendrick [(1)]	15/15	n/a	n/a	n/a	n/a	2/2
Independent Non-executive Directors						
Loke Yu (alias Loke Hoi Lam)	17/17	2/2	3/3	1/1	1/1	2/2
Wang Zhichen	16/17	2/2	3/3	1/1	1/1	0/2
Wang Linan	16/17	2/2	3/3	1/1	1/1	0/2

Notes:

(1) Resigned on 3 October 2012.

TRAINING AND SUPPORT FOR DIRECTORS

Each newly appointed Director has received comprehensive, formal and tailored induction on appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities under the Listing Rules, legal and other regulatory requirements. The Company provides regular updates to the Directors relating to the Group's business and the business and regulatory environments in which the Group operates.

During the year, the Company arranged a seminar on 30 August 2012 on compliance with legal and regulatory requirements to the Directors. The seminar covered a broad range of topics including directors' role and responsibilities, disclosure of interests, disclosure of price-sensitive information, insider dealings, and new corporate governance rules and code. All Directors have attended the seminar. In addition, Dr. Loke Yu (alias Loke Hoi Lam) attended relevant seminars organized by Hong Kong Institute of Certified Public Accountants.

BOARD OF DIRECTORS *(Continued)*

TRAINING AND SUPPORT FOR DIRECTORS *(Continued)*

The Directors have access to the advice and services of the Company Secretary and if necessary, have recourse to external professional advice at the Company's expense. Also, with effect from 1 April 2012, Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company believes that the independent non-executive Directors comprise 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.

During the year, the Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of at least three independent non-executive Directors including at least one independent non-executive Director with appropriate professional qualifications or accounting or relating financial management expertise. In addition, the Company also complied with Rule 3.10A of the Listing Rules that the number of independent non-executive Directors represents at least one-third of the Board. No independent non-executive Director has served the Company for more than nine years.

The Board evaluates the independence of all independent non-executive Directors on an annual basis and has established the practice of requesting written confirmation from each independent non-executive Director regarding his independence. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them to be independent.

In January 2012, each of the independent non-executive Directors had entered into a service agreement with the Company for a specific term of three years, and the directorships under which are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws.

CHAIRMAN AND CHIEF EXECUTIVE

In accordance with the 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.

BOARD COMMITTEES

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to the Audit Committee, Remuneration Committee, Nomination Committee and corporate governance committee of the Company (the "Corporate Governance Committee"). Written terms of reference, which are in line with the Revised Code, of all the Board committees, are available on the website of the Stock Exchange and the Company.

AUDIT COMMITTEE

The Audit Committee was set up in 1999 and currently comprises three independent non-executive Directors, namely Dr. Loke Yu (alias Loke Hoi Lam) (the chairman), Mr. Wong Zhichen and Mr. Wang Linan.

To tie in with the amendments in the Revised Code effective from 1 April 2012, the terms of reference of the Audit Committee were revised during the year. 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 Audit Committee's primary functions include:

- to recommend to the Board on the appointment and 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;

BOARD COMMITTEES *(Continued)*

AUDIT COMMITTEE *(Continued)*

- 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 monitor 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.

During the year, the Audit Committee reviewed the audited financial statements for the year ended 31 December 2011 and the unaudited interim financial statements for the six months ended 30 June 2012 with recommendations to the Board for approval. It also reviewed the internal control system of the Group, and discussed with the management and the external auditors the accounting policies and practices which may affect the Group and financial reporting matters. 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 the areas of business, financial, management and operating practices.

REMUNERATION COMMITTEE

The Remuneration Committee was set up in 2007 and currently comprises three independent non-executive Directors, namely Dr. Loke Yu (alias Loke Hoi Lam) (the chairman), Mr. Wong Zhichen and Mr. Wang Linan, and two executive Directors, namely Dr. Zhang Lijun and Ms. Wang Chun.

To tie in with the amendments in the Revised Code effective from 1 April 2012, the terms of reference of the Remuneration Committee were revised during the year. For determining the remuneration packages of the executive Directors and senior management, the Remuneration Committee has adopted the model that it shall perform an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of the executive Directors and senior management. It recommends to the Board on the Company's policy and structure for all remuneration of the Board members 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.

BOARD COMMITTEES *(Continued)*

REMUNERATION COMMITTEE *(Continued)*

During the year, the Remuneration Committee reviewed the remuneration policy, structure and packages for Directors and senior management, and assessed the performance of the executive Directors. Recommendations regarding the increase of the remuneration of five Directors and two senior management were made by the Remuneration Committee to the Board.

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.

NOMINATION COMMITTEE

The Nomination Committee was set up in 2008 and currently comprises two executive Directors, namely Dr. Zhang Lijun (the chairman) and Ms. Wang Chun and three independent non-executive Directors, namely Dr. Loke Yu (alias Loke Hoi Lam), Mr. Wong Zhichen and Mr. Wang Linan.

To tie in with the amendments in the Revised Code effective from 1 April 2012, the terms of reference of the Nomination Committee were revised during the year. The Nomination Committee is responsible for formulating policy and making recommendations to the Board on nominations, appointment of Directors and Board succession. 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. It also reviews the size, structure and composition of the Board and assesses the independence of the independent non-executive Directors.

During the year, the Nomination Committee reviewed the policy for the nomination of Directors, the composition of the Board and the re-election of all the retiring Directors at the 2012 AGM.

BOARD COMMITTEES *(Continued)*

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was set up in 2012 and currently comprises three independent non-executive Directors, namely Mr. Wong Zhichen (the chairman), Dr. Loke Yu (alias Loke Hoi Lam) and Mr. Wang Linan, and an executive Director, namely Dr. Zhang Lijun.

The terms of reference of the Corporate Governance Committee were adopted during the year. 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 Corporate Governance Committee also reviews the disclosure systems of the Company and introducing relevant principles concerning corporate governance so as to enhance the standard of corporate governance of the Company.

During the year, the Corporate Governance Committee reviewed the policies and practices on corporate governance of the Company, the training and continuous professional development of the Directors and senior management, and the disclosure in relation to corporate governance practices in the interim report of 2012.

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	1,195,000
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.

During the year, the Audit Committee had reviewed effectiveness of the internal control system of the Group on behalf of the Board. The review covered all material control areas including financial, compliance and risk management functions. Based on the results of the review, the Board is satisfied that the Group has maintained sound and adequate internal controls in all major areas.

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 Model Code and Code of Conduct during the year under review.

DIRECTORS' INTERESTS

Full details of individual Director's interests in the shares, share options and interest in securities of the Company and its associated corporation are set out in the "Directors' Report" and in note 34 to the financial statements.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

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 Company and of the Group and of the Group's results and cash flow for that period. In preparing the accounts for the year ended 31 December 2012, the Directors have, among other things:

- selected suitable accounting policies and applied them consistently;
- approved adoption of all Hong Kong Financial Reporting Standards; and
- made judgments and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

The auditor's respective responsibilities to the shareholders in respect of the financial statements are included in the "Independent Auditor's Report".

COMPANY SECRETARY

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman and is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out in the "Directors' Report" section of this report.

CONSTITUTIONAL DOCUMENTS

The memorandum of association and bye-laws of the Company is published on the website of the Stock Exchange and the Company. During the year, there is no significant change in the Company's constitutional documents.

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. The Company has established a shareholders' communication policy and reviews it on a regular basis to ensure its effectiveness.

The Company maintains a website through which the Company's updated financial information, announcements, circulars, notices of meetings, press releases and contact details can be accessed by its shareholders and investors. The Board believes that the Company's website provides an alternative means for the investing public to obtain information of the Company in a convenient and timely manner.

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 Chairman and the chairmen of the Audit Committee, Remuneration Committee, Nomination Committee, as well as the Company's auditor maintained an on-going dialogue with the shareholders and answered all questions raised by the shareholders during the last annual general meeting held on 27 April 2012.

In addition, key executives of the Company also participate in conferences and forums with the objective of promoting investor and stakeholder interests in the Group's businesses.

SHAREHOLDERS' RIGHT

CONVENE A SPECIAL GENERAL MEETING

Pursuant to the Bye-laws, special general meetings shall also be convened on requisition as provided by the Companies Act of Bermuda. The Directors, notwithstanding anything in the Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the Company, and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date. A meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.

PUT FORWARD PROPOSALS AT GENERAL MEETINGS

Pursuant to the Companies Act of Bermuda, any number of members of the Company representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relate or not less than one hundred members of the Company may deposit a written requisition to put forward proposals.

The Company shall then give to members of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

SHAREHOLDERS' RIGHT *(Continued)*

PUT ENQUIRIES TO THE BOARD

Shareholders may send their enquiries and concerns to the Board with contact details as below:–

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

Telephone: 852-2869 8966
Facsimile: 852-2869 8960
E-mail: info@vodone.com.hk, ir@v1.cn

Upon receipt of the enquiries, the staff of the investor relations department will consider the concern proposed and raise it to the Board in the regular Board meeting for their considering and communicate with the shareholders for the result and feedback of the Board meeting.

Share Option Schemes

THE COMPANY

On 27 April 2012, the shareholders of the Company approved a new share option scheme (the“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. The outstanding share options granted under the Old VODone Scheme entitled the eligible participants to subscribe for 141,002,400 shares.

Under 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 30 April 2012 to 29 April 2022. The total number of shares which may be allotted and issued upon exercise of all options (excluding options which have lapsed in accordance with the terms of the VODone Scheme) to be granted under the VODone Scheme must not in aggregate exceed 10% of the shares in issue as 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 and the Old VODone Scheme shall not 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 the eligible participants as incentives or rewards for their contribution to the Group.

(II) *Participants of the VODone Scheme:*
The Directors may, in accordance with the provisions of the VODone Scheme, 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, 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 in which any member of the Group holds any equity interest (“Invested Entity”);

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 total number of shares available for issue under the VODone Scheme was 265,778,478 shares representing approximately 8.44% of the issued share capital as at the date of this report.

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

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the VODone Scheme (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being unless it is approved by shareholders at general meeting of the Company with such grantee and his associates abstaining from voting. Where any grant of share options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the shares issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million; such further grant of options must be approved by shareholders at 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 on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:*

A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option within such time specified in the offer (which shall not be later than 10 business days from the date of the grant).

(VIII) *The basis of determining the exercise price:*

The exercise price 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 the shares as stated in the Stock Exchange's daily quotations sheet for trades 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 price of the shares as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of shares for the five business days immediately preceding the date of the offer of grant which must be a business day; and

c. the nominal value of a share.

(IX) *The remaining life of the VODone Scheme:*

The VODone Scheme has the period of 10 years commencing from 30 April 2012.

Details of the share options granted by the Company during the year ended 31 December 2012 are set out in note 34 to the financial statements.

THE SUBSIDIARY

Under the share option scheme of 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 ("CMGE Shares") which may be issued upon exercise of all options to be granted under the CMGE Scheme shall not in aggregate exceed 10% of the CMGE Shares in issue on the date of approval of the CMGE Scheme (the "CMGE Scheme Limit") unless shareholders' approval of CMGE and the Company have been obtained at general meetings to refresh the CMGE Scheme Limit, provided that options lapsed in accordance with the terms of the CMGE Scheme will not be counted for the purpose of calculating the CMGE Scheme Limit. The total number of the CMGE Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the CMGE Scheme shall not exceed 30% of the CMGE Shares 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.

THE SUBSIDIARY *(Continued)*

(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 total number of CMGE Shares available for issue under the CMGE Scheme was 13,297,960 shares representing approximately 4.02% of the issued share capital of CMGE as at the date of this report.

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

The total number of CMGE Shares issued and to be issued upon the exercise of the options granted and to be granted to any eligible person (including both exercised and outstanding options) in any 12-month period up and including the date of grant shall not exceed 1% of the CMGE Shares in issue as at the date of grant unless it is approved by the shareholders of CMGE and the Company (other than the grantees and/or their respective associates) in general meeting of CMGE and the Company. Where any proposed grant of options to a substantial shareholder (as such term is defined in the Listing Rules) or an independent non-executive director of the Company, or any of their respective associates, will result in the total number of CMGE Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of grant: (a) representing in aggregate over 0.1% of the CMGE Shares in issue; and (b) having an aggregate value, assuming such 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 each grant, in excess of HK$5 million, such further grant of options shall be subject to approval by shareholders of CMGE and the Company in general meetings.

(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.

THE SUBSIDIARY *(Continued)*

(VII) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:

A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option within such time specified in the offer.

(VIII) The basis of determining the exercise price:

The exercise price 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.

(IX) The remaining life of the CMGE Scheme:

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

Details of the share options granted by CMGE during the year ended 31 December 2012 are set out in note 34 to the financial statements.

Management Discussion and Analysis


彩票365
中国足彩网
www.zgzcw.com

Management Discussion and Analysis

OPERATING RESULTS

Turnover of the Group for the year ended 31 December 2012 amounted to HK$476,800,000, representing a decrease of around 49.81% as compared with last year. Loss attributable to the owners of the Company was HK$3,138,000 (2011: Profit of HK$370,688,000).

BUSINESS MODEL AND STRATEGIC DIRECTION

BUSINESS MODEL

The Group is engaged in three main core business operations including the tele-media business, lottery-related business and mobile games business, which are of sizeable scale and significant influence in Mainland China. We are committed to providing high-quality services and creating sustainable values for shareholders and investors.

In relation to the tele-media business, the Group capitalizes on the advantage of possessing all the necessary qualifications and licenses to position itself as a "mini-video news portal in China", which offers high-quality, easily accessible and user-friendly services and provides news to users in line with their needs. At the same time, the huge page viewing volume will increase online advertising revenue and generate revenue for lottery and games channels.

In respect of the lottery-related business, the Group provides lottery-related services such as internet lottery-buying, mobile lottery-buying, live match broadcasting, weibo interactivity and discussion forums through its cooperation partners in China and earns relevant income.

The Group's mobile games business can be divided into games and handset design. The Group cements partnership with a number of mobile network operators and major application stores in China in respect of the sales of mobile games and related products. The Group can also obtain additional revenue sharing from pre-installation of mobile applications of its working partners. Moreover, the Group can obtain revenue from handset design solutions.

The Group's main sources of revenue are derived from advertising revenue, revenue from lottery-related business, games sales and revenue sharing from projects.

STRATEGIC DIRECTION

The Group adopts the following strategies to create sustainable values for shareholders:

- Making focused efforts on the internet mini-video news, lottery-related business and mobile games business market
- Actively stepping up business expansion and cementing partnership
- Balancing risk exposures
- Maintaining prudent financial management

Making focused efforts on the Internet mini-video news, lottery-related business and mobile game business market

The Group attains growth by winning patronage from China's internet users and mobile phone users, and has built itself into an impeccably reputed player and an unrivalled brand over the years. With strong confidence in the continued expansion of the Internet mini-video news, lottery-related business and mobile game business market, the Group is expanding into the Internet mini-video news, lottery-related business and mobile game business market. Given that the Group is firmly dedicated to pursuing its core strategy of providing excellent and quality services, the Group's brand secures widespread market recognition. The Group will uphold its core strategy and continue to strengthen its brand.

Actively stepping up business expansion and cementing partnership

The Group dedicated vigorous efforts on its business expansion through enrichment of website contents, increment of information and development of new website products and mobile games. In addition, the Group also formed stronger partnership with a number of media partners in relation to the expansion of sales channels, with an aim to uplift and build the brand of the Group. Based on our renowned reputation, seasoned team plus unswerving commitment to premium product quality, we will be well-positioned to extend focused endeavours on the development and consolidation of the Group's business.

Balancing risk exposures

The Group's risk management policies, which are framed in accordance with the operating principles of the Company, aim to prevent any possible losses within the scope of bearable risks, enhance shareholder values to the extent of an optimal balance between risks and rewards as well as fulfil the principle of optimization of capital allocation. The management expects to exercise continued control over the cost of the Group in the future, and to strive for sustainable core competitiveness, with a view to striking a balance between the development of the Group and the reward for shareholders.

Maintaining prudent financial management

The key to our success is to maintain sound financial position. With prudent financial management in place, we can ensure the positive development of the Group and enable the Group to capture the opportunities to invest in attractive projects. The Group places great emphasis on the management of liquidity, in order to ensure that the Company has a sufficient pool of funds to meet day-to-day operations and to finance strategic investments.

BUSINESS REVIEW AND DEVELOPMENT

In 2012 VODone focused mainly on the development of the tele-media, lottery-related and mobile games businesses.

- ## TELE-MEDIA BUSINESS

Mature technology in Cloud video news and diversification of website contents

Capitalizing on the advantage of possessing all the necessary qualifications and licenses, in 2012 VODone Portal (第一視頻網) (www.v1.cn) re-positioned itself as a "mini-video news portal in China" specializing in the broadcasting of mini-video news. Through various means of access to contents including partnering up with the media and the set up of editing and broadcasting stations, the problems of high similarity of contents and exorbitant royalty charges which plagued mini-video portals were overcome. Thanks to the efforts in offering a wide spectrum of information, personalized topics, branded self-produced programs and professionalised live broadcasting, the visibility of the website as a medium was strengthened. The website has become increasingly influential, and its advertising value was recognised by a number of authoritative institutions. At the 2012 annual meeting of China's enterprise leaders and media leaders, VODone Portal was granted the award of "The Most Influential New Media with the Greatest Advertising Value in China in 2012" (「影響中國二零一二年度最具廣告傳播價值新媒體」).

In order to further enhance the power of influence and profitability of VODone Portal as a "mini-video news portal" in China in 2012, with the technology innovation of "cloud video news" as the highlight, VODone Portal successfully built in eight months' time the largest integrated broadcast platform of "cloud video news" in the PRC. In line with the philosophy of "mini-video, cloud news, real-time discovery", the "cloud video news" platform generated an original concept of "News Tree", which embraces the concept of creating fabulous experience for users in watching video news by inspiring their thoughts and insights into the inter-relationship between individual pieces of news without limiting to the news itself and the related news through the use of the "keyword association" technology. The "cloud video news" platform also provides users with a wide range of customised services by incorporating social elements, UGC (User Generated Content) technology and mobile application services. The application of the "cloud video news" technology will greatly enhance the content production capacity and the product innovation capability of the website.

Mini-video news in China and around the world are readily available in the “cloud video news” platform, which supports the uploading, searching and playing back of mobile phone shot videos and is also the first of its kinds that provides “video weibo” services in China. Such service features an integrated platform for weibo, mini-video and “cloud”, enabling users to share their thoughts, feelings and special moments in life with friends or the public in the form of short videos. Meanwhile, the “Di Yi Xiu Chang”(「第一秀場」) internet video broadcast platform, which is linked to the “cloud” platform, and the “cloud gaming” platform, which supports the “cloud” platform’s games channel business, have been built and will commence operation successively. Each of these new products and business lines will help boost the profitability of VODone Portal significantly, underscoring the sustainable and stable growth of the tele-media business of VODone.

Introduction and prospect of the V1pin (www.v1pin.com) business

In recent years, China has entered the fourth wave of baby boom, with new borns putting on by about 20 million per annum. Based on the cumulative number of newborn babies, the total number of infants and children (age between 0 to 6 years) in the country amounted to about 110 million. Fuelled by enhanced spending power, maternal-child consumer goods are set to record a sustained high growth. According to the projection by the Association of Infant and Child Industry, the consumption of maternal-child consumer goods currently accounts for about 30% of the total household expenditure, with sales amount in the entire maternal-child market in 2012 reaching RMB1 trillion. Moreover, China has become the second largest maternal-infant product consuming country, just behind the United States.

In view of this, V1pin online shopping platform established by joint forces between us and CCTV（中視購物）will tap on this burgeoning market which has vast business opportunities. In respect of online marketing, V1pin leveraged on the Group's abundance in resources, targets on high-end household customers of the maternal-child category among users and carries out in-depth marketing on them. V1pin focuses on the consumers group who "care about baby health and demand for quality products". In relation to offline marketing, we will also team up with banks, high-class postnatal care centres and maternity hospitals for joint marketing efforts. The Group is committed to providing originally-imported high-quality infant products, with a vision to assure its customers of superb-quality products and attentive services. In addition, V1pin has attached much attention to high-end household customers in second and third-tier cities where have strong consumption demand for originally-imported infant products from the high-end household customers, but have relatively lesser channels for the purchase of these products. As such, the Group will put intensive marketing efforts in these markets.

In the future, V1pin is committed to becoming China's largest online store for imported infant products, and to providing customers with a safe and reliable shopping platform of an advanced platform, powerful operations, premium quality and caring service. Meanwhile, V1pin will be a fresh impetus to the growth in e-commerce revenue for the Group.

- **LOTTERY-RELATED BUSINESS**

In response to the adjustments to the state policies in lottery-related business in 2012, the partners of VODone adjusted the management structure of the lottery-related business by adopting the principles of autonomous operation, and independent and professional approach of operations. Vigorous and proactive efforts were made to mitigate the adverse impact and pressure of the changes in the policies on the lottery-related business, thereby restoring a steady growth of operating revenue. On 1 January 2013, the Ministry of Finance of the People's Republic of China promulgated a new policy to officially include internet sales as a legitimate channel for lottery sales and distribution, thus presenting immense business opportunities for the lottery-related business of the partners of VODone. The partners of VODone are currently making active endeavours to comply with the regulatory adjustments and attain necessary qualifications for the lottery-related business and striving to become anchor enterprises in China's internet lottery sales.

Zhongguozucaiwang（中國足彩網）（www.zgzcw.com）

Since the end of 2011, Zhongguozucaiwang has been continuously enhancing and enriching its content by adding more experts' predictions and analyses, which were highly regarded and well received by users, which took Zhongguozucaiwang's scope of professional service to a new level. Moreover, pre-games information was updated on a daily basis to provide more precise and relevant reference for soccer games betting, which were highly popular among sports fans. A good variety of original contents had helped characterize our website and enabled us to stay ahead among the competitive websites in the sector.

To boost lottery sales volume and enhance users' cohesion and degree of activeness, we continued develop and enhance the website's products. These efforts started with the development of "The Fight of Hundred Regiments"（「百團大戰」）(group lottery) project. Since the launch of group lottery, users have taken greater initiatives towards "combination of lottery placements and greater sum of lottery placements"（「發單併，發大單」）(i.e. collective group purchase of a series of lotteries), which drew the attention of more sports fans. In addition, with the launch of a new version of "The Forecasts from All Directions"（「八方預測」）, further improvement and enhancement were achieved by the inclusion of match details such as match schedules and player lineup, featuring an easy browsing of all important information including soccer team information and league match information by sports fans. As such, the needs of users have been better catered for, whereas users' experiences and the chance of lottery winning have been enhanced. In addition, following the introduction of the new version of "Guess Forum（「猜猜論壇」）, the number of average daily postings has increased to 5,000. The forum created an open platform for sports fans to chat and exchange their ideas freely.

In 2012, Zhongguozucaiwang had established collaboration with more than 30 media 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）, Hexun（和訊）, 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）for the exchange and sharing of articles, laying a solid foundation for the promotion and page viewing volume of the website. During the European Cup, the cooperation with PPTV brought the daily page viewing volume to nearly 100,000. There was a steady growth in both monthly page viewing volume and sales volume, and the results in the second half of the year were particularly remarkable.

Zhongguozucaiwang has been committed to launching promotion activities to boost sales volume and number of users. On average, two activities were launched each month. Of which the "Award of Extra 50 for Each Winning of Lottery Money of 400, with No Cap"（「競彩中400獎50不封頂」）was in particular attracted to soccer fans. Activities like "Shengfucai and Renxuanjiu, with Prizes for Unsuccessful Betting"（「勝負彩任選九不中獎也有獎」）, "Guess PK Game"（「猜猜PK賽」）and "Lottery Match"（「競彩擂台」）were highly popular with soccer fans. These promotional activities substantially uplifted the active participation of sports fans.

Diyicai（第一彩）(www.diyicai.com)

Diyicai is a paperless platform that comprehensively covers the country's mainstream welfare lottery tickets. Enriched information and contents are embodied in the website through continuous improvement and introduction of new technologies. In order to promote wider use of Diyicai among lottery players, Shuangseqiu Dingtou（雙色球定投）, Shuangseqiu Dedicated Page, NBA Topics Page, Digital Lottery Topics Page and European Cup Topics Page have been launched, thereby providing convenient and diversified betting options for lottery players.

In 2012, Diyicai reached a cooperation agreement with China National Broadcasting Network (央廣廣播電視網絡台) ("CNBN"). In addition, we worked with Talkweb Information System (湖南拓維信息) to introduce SMS betting system in Heilongjiang. Also, we partnered with a number of websites including hao123, Taobao (淘寶), Etao (一淘), ku6(酷六網), 139 Community (139社區), PaiGou (拍夠) and Quanmama (券媽媽) in respect of the marketing of lottery money coupons. Lottery money coupons were given as present through collaborative platforms. This had greatly enhanced the page viewing volume of the website. Moreover, there was an addition of 430,000 new registered users, among them, 200,000 new users were active users.

Lottery 365(彩票365)

A brand new milestone product "Lottery 365" was officially launched in 2012. It is a mobile application which is the first of its kind that integrates weibo interactivity, live match broadcasting, sports events betting, lottery sales and experts' analyses.

Lottery 365 entered into a cooperation agreement with TCL Mobile Payment Platform. In June 2012, Lottery 365 was officially launched for the first time on China Telecom's E surfing platform (天翼空間) covering 60 million 3G phone users of China Telecom. Since its launch, Lottery 365 had been immediately recommended by dozens of applications stores, including Apple iOS App Store, "91 Shoujizhushou" (91手機助手), Android market, GoMarket (安智市場), aMarket (機鋒市場), E surfing, Baidu App Engine (百度應用), waptw.com (UC天網), Tencent App Center (騰訊應用寶) and Sohu App Center (搜狐應用中心) and soon become highly popular amongst lottery players and soccer fans. When searching "彩票 (lottery)" on Apple iOS App Store, Lottery 365 appears in a top-rank position, and has attained a top 10 ranking among free applications for a number of times. Lottery 365 is also at the forefront of the "lottery" category among Android platforms and major mobile applications market in China.

From the initial launch of Lottery 365 to 31 December 2012, the number of users downloading Lottery 365 had exceeded 4.5 million. Lottery 365 has now become the mobile lottery-buying application with the highest downloading volume and the largest number of active users in China.

Lottery 365 had already received positive feedbacks from millions of users since its roll out for only six months, and won increasing recognition and applause from industry experts and the media. In 2012, we were granted a number of honours, including the "2012 Product Innovation Award (「2012年度產品創新獎」)" from the China Institute of Communications of the Ministry of Communications, the "Editor's Recommendation Award for Other Applications for Mobile Phone In China"(「中國手機其他應用軟件編輯推薦獎」) in the selection activities of "The Event of M-World Top App" (「91全球移動應用世界2012金掌獎」) organized by SJ.91.com (91手機娛樂), the "2012 Excellent Mobile Application Award (「2012年度優秀移動應用獎」)" at the Mobile Internet Annual Meeting hosted by the Global Mobile Internet Union, as well as the "Internet Top 10 Service Innovation Award in PRC in 2012 (「2012中國互聯網十大服務創新獎」)" from the Internet Society of China.

Lottery 365 features the following eight innovative functions:

1. Live scores: Synchronization of live scores with betting on match results and the provision of goals score alerts in a prompt manner enable users to keep closely abreast of the development of matches.

2. Live broadcasting of matches: Live broadcasting is provided for focused sport events such as the European Cup/Olympic Games/European Championship.

3. 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.

4. “The Forecasts from All Directions”: It releases trend analyses on Shuangseqiu and predictions on football lottery exclusively by renowned media specialists.

5. Weibo interactivity: It provides lottery players with an interactive platform that enables lottery players everywhere to share information among themselves. The platform is the most active lottery weibo community for lottery players in China.

6. Joint lottery-buying in voice form: Voice elements are added by introducing “365 Good Voice”(「365好聲音」), which makes suggestions on joint lottery-buying proposals in voice mode to users of Lottery 365.

7. Lucky number selection: Users may randomly select their lucky numbers by “Shaking Mobile Phones”(「搖一搖」). Users may also select their lucky numbers with a unique shaking function named “A Blow”(「吹一吹」), which is based on the calculation of their constellation, date of birth or name.

8. Lottery betting: It covers the nation’s mainstream welfare lotteries and sports lotteries such as Shuangseqiu, Daletou(大樂透), Selection of 5 out of 11(11選5), Fucai 3D(福彩3D), Shengfucai(勝負彩), Basketball Lottery(競彩籃球)and Football Lottery(競彩足球). It also provides trend analyses on numbers, past track records of soccer teams and live betting proportion for users’ reference.

Intra-site services

Our lottery-related business has proactively upgraded a number of services, including a series of new features such as website bets, intra-site messaging and personal secretary, which has greatly enhanced the speed of response of the website services. The optimization and improvement of the customer service, SMS support, channel and agency departments had facilitated user enquiry, data compilation and company promotion, thereby improving the efficiency of interaction between users and the website.

To benefit from celebrity effect, the Group cemented respective partnerships with Huang Jianxiang (黃健翔), a celebrated sports commentator in China and the Chief Marketing Officer of Diyicai of VODone, and Zhou Liang (周亮), a popular football commentator in China. 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 fresh impetus to drive for sales growth.

Targeting on the recharge users of the website, we have put into place a half-year user loyalty reinforcement plan. Through the Group's business partnership, marketing efforts and improvement in customer services, we have reactivated nearly 100,000 idle users and regained nearly 20,000 active users.

These business partnerships and marketing efforts have further promoted the popularity of Zhongguozucaiwang, Diyicai and Lottery 365 and laid a solid foundation for future development.

- **MOBILE GAMES BUSINESS**

The smartphones industry experienced a very high growth in China in 2012. In anticipation of a fast-shifting environment away from feature phones to smartphones, VODone's mobile game subsidiary CMGE is upgrading its mobile game products, distribution channels and technology and development teams to ensure a smooth transition. Despite market and company transitioning, CMGE remains a leading mobile game company in China with the largest market share among mobile game developers in terms of revenues in 2012 (in addition to 2010 and 2011).

By focusing on providing feature phone users with a mobile game experience comparable to smartphones through the launch of popular products such as the "Featured Games" the Funbox Game Platform, and the service platform FMM (Feature phone Mobile Market) that was jointly launched with China Mobile (中國移動), MediaTek (聯發科技) and Vogins Technology (沃勤科技), CMGE sought to strengthen its already leading position in the feature phone mobile games market in China in 2012. CMGE also focused primarily on the development and operation of smartphone games for both Android and iOS platforms. In order to attract high-quality smartphone games resources and to increase CMGE's image and recognition in the market, CMGE works closely with a number of industry partners.

By the end of 2012, CMGE's MMORPG (Massive Multiplayer Online Role-playing Game 大型多人在線角色扮演遊戲) social games portfolio included "Hero Alliance (英雄聯盟)," "Purple Wings (紫翼)," "Dian Feng (巔峰)," "Xiao'ao Jianghu (笑傲江湖)," "Xun Qin (尋秦)" and "Creation Song (創世神曲)." "Hero Alliance" was successfully launched in July 2012. CMGE has a self-developed game portfolio that spans multiple genres which include mobile social card games, MMORPGs and 2D/3D mobile social games. We have developed a theme called "Kuaile (快樂)" in the mobile social card game series. The Kuaile series contain games like, "Kuaile Doudizhu (快樂鬥地主)," "Kuaile chajinhua (快樂炸金花)," "Kuaile Mahjong (快樂麻將)," "Kuaile Mahjong for two (快樂二人麻將)," and "Kuaile Niuniu (快樂牛牛)." Some of the mobile social card games have been launched in the market and have garnered encouraging feedbacks. Regarding MMORPG social games, CMGE is developing an immortal hero themed heavy MMORPG social game – "Demon Killer Legends (降魔神話)," a western fantasy myths themed heavy MMORPG social game – "War Valley (戰谷)"; an ancient legendary themed RPG social game – "Immortal Wind (仙風)"; a stone-aged fighting RPG social game – "Che Che Bomb (扯扯彈)"; a heavy three-dimensional immortal hero themed MMORPG social game – "Gods & Demons (仙魔道)" and a three dimensional music and dancing social game – "Dazzling Dance (炫舞派)."

All smartphone games developed by CMGE are generally available on both Android and iOS platforms. In terms of light social games, in 2012 CMGE successfully launched a new Android based social game called "Home Aquarium." In November 2012, this game was ranked sixth on Apple's iPhone paid game list in the China region and second on Apple's iPad paid game list.

As the mobile games operation and publishing for smartphones continues to grow rapidly, we anticipate that the user traffic will facilitate the promotion of our own propriety mobile social games and reduce future promotional costs. CMGE started developing the mobile game operation and publishing business in the second half of 2012 and established a strong distribution network that reaches over 150 million users, with over 30 million active users per month. Supported by its powerful distribution network and established user base, CMGE aims to operate and distribute mobile game products tailoring the characteristics and needs of different users, and establish cooperative relationships with game developers, assisting them to further penetrate the mobile social games market. As of the end of 2012, CMGE operated and published 20 mobile social games, five of which CMGE has secured the exclusive rights to operate in China.

During 2012, CMGE had developed a strong mobile game distribution platform in China – CMGE Game Center (中國手遊中心). CMGE Game Center is a one-stop social and interactive platform for downloading Android-based mobile games via WEB portals for mobile internet users, users' own mobile handsets and WAP websites. CMGE Game Center has become one of the important publishing channels for CMGE.

CMGE has expanded its relationship with China Mobile on single player game bundles from one game bundle in 2011 to three in 2012. These game bundles are "G+ Haoyouduo (G+好又多)", "G+ Gamewang (G+遊戲王)" and "3GUU Game Tui Jian Bao (3GUU人氣推薦包)". Each game bundle delivers six to eight single player games to users every month. "G+ Haoyouduo" was ranked first by revenue among all of China Mobile's monthly subscription game bundles for 11 months in 2012.

As of 31 December 2012, CMGE's proprietary game portfolio included 497 mobile games, of which 328 were smartphone games and 169 were feature phone games.

2012 Milestones

- **May 2012**, MediaTek, a leading fabless semiconductor company for wireless communications, became CMGE's strategic shareholder.
- **August 2012**, CMGE was selected by Forbes China as one of the 30 Top Mobile Businesses in China.
- **September 2012**, CMGE was listed on NASDAQ.
- **October 2012**, CMGE signed an exclusive strategic cooperation agreement with Guangzhou CooguoSoft Co., Ltd. (廣州市谷果軟件有限公司) Under the terms of the agreement, the game promotion segment of KuGuo's Ad Platform (酷果廣告平台) will promote mobile games operated and published by CMGE.

Outlook for 2013

Business Outlook

In 2013 CMGE is determined to capture the growth opportunities in the smartphone social games and game publishing businesses by leveraging its prior investments in developing its new generation games as well as its expanded distribution channels. The games CMGE develops for smartphones will also be available for download on tablets through the same channels as smartphones, an aspect of its business CMGE anticipates will expand significantly during 2013 because of the better user experience available through tablets, in particular for MMORPGs, due to their larger screen size compared to phones. During 2013, CMGE plans to launch more than seven self-developed social games, all of which will be available for both Android and iOS-based phones and their tablets and to launch over 100 self-developed or sourced single player smartphone games. CMGE has already established a strong network that reaches over 150 million users with over

30 million active users a month and recently released the Game Center application store, which can leverage its extensive pre-installation and open-platform channels to distribute and publish smartphone games. In 2013 CMGE wishes to install its Game Center application store and its selected games on approximately 60 million mobile handsets. CMGE plans to exclusively publish eight third-party developed social games and to operate and publish over 100 additional social games for third-party game developers through its publishing platform.

2013 Major Game Launch Schedule

War Valley (aka Zhan Gu) – Expected launch: June 2013

"War Valley" is a heavy MMORPG social game set against a western fantasy myth. Players navigate around the virtual world through their mobile phone screens or controller. Through exploration, players gradually customize their characters as the game plot develops. Revenue is generated through the in-game sale of virtual items.

Compatible systems: PC (web game), iOS, Android.

Immortal Wind (aka Xian Feng) – Expected launch: June 2013

"Immortal Wind" is a RPG social game based on the ancient Chinese legend "Shanhai Jing." Players navigate around the virtual world by controlling their mobile phone screens. Through exploration, players gradually customize their characters as the game progresses. Revenue is generated through in-game sale of virtual items.

Compatible systems: iOS, Android.

Che Che Bomb (aka Che Che Dan) – Expected launch: June 2013

"Che Che Bomb" is a RPG social game set in the Stone Age era. Players move their characters around the virtual world and hit targets with bombs by controlling the launch trajectory. Revenue is generated through in-game sale of virtual items.

Compatible systems: PC (web game), iOS, Android.

Dazzling Dance (aka Xuan Wu Pai) – Expected launch: July 2013

"Dazzling Dance" is a 3D music dancing game with fun interactive gameplay. With a high degree of community interaction and personalized in-game preferences. The game provides upgradable items such as costumes, as well as a cooperative game mode along with other unique game settings in addition to the music experience. This game is different from other games of the same type in three aspects: gameplay, interaction and personalization level.

Compatible systems: iOS, Android.

AWARDS

AWARDS RECEIVED BY VODONE IN 2012

No.	Name of Award	Conferred By
1	Top Ten Mobile Internet Companies in China (2011-2012)	Communication Weekly and Organization Committee of the Fifth China (Chendou) International Communication Festival
2	New Media with the Greatest Advertising Value	China Association of National Advertisers, School of Journalism and Communication, Renmin University of China and Advertising School of the Communication University of China
3	2012 Excellent Mobile Application Award	Organization Committee of Mobile Internet Annual Meeting 2012 and Global Mobile Internet Union
4	Internet Top 10 Service Innovation Award in PRC in 2012	China Internet Association and Organization Committee of China Internet Industry
5	2012 Best Charity Communication Award	Organization Committee of China Charity Festival
6	2012 Industry Leader – Zhang Lijun	Beijing Business Today
7	2012 Product Innovation Award	China Institute of Communications
8	Editor's Recommendation Award for Other Applications for Mobile Phone In China	The Event of M-World Top App organized by SJ.91.com

FINANCIAL REVIEW

BUSINESS SEGMENTS

	Tele-media business		Lottery-related business		Mobile games business		Total	
	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	**165,411**	430,010	**70,050**	203,507	**241,339**	316,555	**476,800**	950,072
Reportable segment profit/(loss)	**63,520**	157,494	**9,026**	107,200	**(69,794)**	120,539	**2,752**	385,233

TELE-MEDIA BUSINESS

The Tele-media business segment contributed a turnover of HK$165,411,000 to the Group for the year ended 31 December 2012, representing a decrease of around 61.5% as compared with 2011, when it contributed a turnover of HK$430,010,000. The lackluster performance of the overall business operation environment in the PRC continued in 2012 under the influence of negative factors in the macro economic environment, including but not limited to the European debt crisis. As a result, the relevant advertising and service income suffered. Segment profit decreased to HK$63,520,000 for the year, representing a decrease of around 59.6% over last year.

LOTTERY-RELATED BUSINESS

As at 31 December 2012, the Group recorded a lottery-related income of HK$70,050,000, representing a decrease of around 65.5% as compared with the corresponding period last year. Lottery-related business income in the second half of 2012 increased by 200% over the first half of 2012. However, segment profit for the whole year decreased by 91.5% to HK$9,026,000 when compared with last year's corresponding period. Excluding expenditure of non-cash nature, such as depreciation and amortization, profit from lottery-related business segment reached HK$33,015,000.

In 2012, due to the Chinese government regulated internet lottery selling through policy, both revenue and profit from lottery-related business decreased. With online sales have now been formally recognized by the PRC government as a legal channel for lottery selling from 1 January 2013, and promulgation of relevant policies and regulations on internet lottery business, we are optimistic that such supportive development will benefit the lottery-related business of the Group that it may resume the pattern of high growth.

MOBILE GAMES BUSINESS

For the Year of 2012, revenue decreased to HK$241,339,000, representing a decrease of 23.7% as compared with the corresponding period in 2011. Segment loss was HK$69,794,000 (2011: Profit of HK$120,539,000).

The mobile games business launched new efforts in 2012 with a view to capturing the substantial business potentials in the mobile games market. As a results of which, significant expenses were incurred during the year. Firstly, the successful listing of CMGE on the Nasdaq Global Market on 25 September 2012 incurred a one-off listing expenses of HK$34,499,000. Secondly, CMGE granted share options and restricted shares to its management and R&D personnel as incentives in February 2012, which incurred a share-based expenses of HK$16,728,000. Thirdly, the handset design operation of CMGE recorded an impairment loss of HK$47,071,000. Fourthly, more resources have been invested in product R&D and recruiting talents so as to develop the next generation of smart phone social games, reinforce the platform of social games and the handset design operation. Consequently, the R&D expenses increased from 10.1% in 2011 to 18.7% in 2012. However, such investments are expected to generate return in 2013.

NET LOSS

Loss attributable to the owners of the Company for the year was HK$3,138,000, compared to a profit of HK$370,688,000 in the last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had HK$364,503,000 cash and cash equivalents (31 December 2011: HK$387,836,000).Working capital was HK$1,032,566,000 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 31 December 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 31 December 2012, the Group's current ratio was 6.2 (31 December 2011: 5.6). 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$309,527,000 as compared with the corresponding period in 2011 recording a net cash inflow from operating activities amounting to HK$78,999,000.

CHARGES AND CONTINGENT LIABILITIES

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

CAPITAL STRUCTURE

As at 31 December 2012, the total assets of the Group were HK$3,096,372,000 (2011: HK$2,973,608,000). Issued number of shares increased from 2,711,584,784 shares (31 December 2011) to 3,149,563,262 shares (31 December 2012), which was mainly due to the issuance of new shares as a result of placing of new shares, bonus issue and exercise of share options by employees. The Group's capital structure, as well as cash inflow, is therefore very healthy.

On 3 May 2012, the Company entered into a share placing and subscription agreement with BOCI Asia Limited and Zhang Lijun for the placing and subscription of 160,000,000 new shares of the Company, at the subscription price of HK$0.93 per subscription share. The gross proceeds from the subscription before deducting related expenses amounted to HK$148,800,010. 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 2012, the Group had a total of 741 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 2012

SUSTAINABLE GROWTH

Independent Auditor's Report

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TO THE SHAREHOLDERS OF VODONE LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of VODone Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 62 to 145, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981 (as amended), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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 2012 and of the Group's loss 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, 26 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	7	**476,800**	950,072
Cost of revenue		**(208,518)**	(284,895)
Gross profit		**268,282**	665,177
Other gains and losses	8	**61,158**	171,656
Selling and marketing expenses		**(61,881)**	(247,301)
Administrative expenses		**(191,689)**	(138,279)
Impairment of intangible assets	20	**(11,991)**	–
Impairment of goodwill	18	**(35,080)**	–
Finance costs	9	**(1,872)**	–
Share of loss of associates	17	**(37)**	(12,479)
Profit before income tax	9	**26,890**	438,774
Income tax expense	12(a)	**(42,306)**	(39,381)
(LOSS)/PROFIT FOR THE YEAR		**(15,416)**	399,393
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**14,480**	94,963
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(936)**	494,356
(LOSS)/PROFIT ATTRIBUTABLE TO:			
Owners of the Company		**(3,138)**	370,688
Non-controlling interests		**(12,278)**	28,705
		(15,416)	399,393
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		**11,196**	460,813
Non-controlling interests		**(12,132)**	33,543
		(936)	494,356
(LOSS)/EARNINGS PER SHARE			
– Basic (HK cents)	14	**(0.10) cents**	13.38 cents
– Diluted (HK cents)	14	**(0.10) cents**	13.13 cents

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**44,951**	50,016
Interests in associates	17	**41,411**	41,175
Goodwill	18	**869,224**	898,344
Intangible assets	20	**910,326**	486,853
Deposits for acquisition of property, plant and equipment		**1,348**	5,635
		1,867,260	1,482,023
CURRENT ASSETS			
Trade receivables	21	**94,010**	195,237
Other receivables, deposits and prepayments	22	**470,197**	440,469
Inventories	23	**2,855**	2,557
Other financial assets	24	**49,448**	37,429
Amounts due from associates	35(c)	**247,393**	425,223
Amounts due from related companies	35(d)	**706**	2,834
Bank balances and cash		**364,503**	387,836
		1,229,112	1,491,585
CURRENT LIABILITIES			
Trade payables	25	**4,478**	11,657
Deposits received, other payables and accruals	26	**38,949**	110,362
Amount due to a related company	35(e)	**53**	53
Other financial liabilities	29	**95,472**	–
Consideration shares	30	**38,115**	99,393
Tax payable		**19,479**	43,184
		196,546	264,649
NET CURRENT ASSETS		**1,032,566**	1,226,936
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,899,826**	2,708,959
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**9,442**	13,487
NET ASSETS		**2,890,384**	2,695,472
EQUITY			
Share capital	28	**30,981**	26,141
Reserves		**2,683,890**	2,565,630
Equity attributable to owners of the Company		**2,714,871**	2,591,771
Non-controlling interests		**175,513**	103,701
TOTAL EQUITY		**2,890,384**	2,695,472

Zhang Lijun
Director

Wang Chun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company								Non-controlling interests	Total
	Share capital (note 28) HK$'000	Shares to be issued HK$'000	Share premium (note 31 (a)) HK$'000	Other reserves (note 31(b)) HK$'000	Share-based compensation reserve (note 31(c)) HK$'000	Exchange fluctuation reserve (note 31(d)) HK$'000	Retained profits HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2011	23,989	3,096	771,111	479,761	18,647	110,906	347,814	1,755,324	95,531	1,850,855
Profit or loss	–	–	–	–	–	–	370,688	370,688	28,705	399,393
Exchange differences arising on translation of foreign operations	–	–	–	–	–	90,125	–	90,125	4,838	94,963
Total comprehensive income for the year	–	–	–	–	–	90,125	370,688	460,813	33,543	494,356
Exercise of share options	82	–	11,039	–	(1,648)	–	–	9,473	–	9,473
Shares issued for acquisition of assets in prior year	13	(3,096)	3,083	–	–	–	–	–	–	–
Shares issued for acquisition of assets, net of acquisition costs	928	–	106,669	–	–	–	–	107,597	–	107,597
Consideration shares for business acquisitions	351	–	82,467	–	–	–	–	82,818	–	82,818
Recognition of share-based payment expense (note 34(a))	–	–	–	–	17,680	–	–	17,680	–	17,680
Transfer upon cancellation of share options	–	–	–	–	(92)	–	92	–	–	–
Placing of new shares	900	–	202,500	–	–	–	–	203,400	–	203,400
Repurchase of shares	(122)	–	(13,631)	–	–	–	–	(13,753)	–	(13,753)
Dividend paid (note 15)	–	–	–	–	–	–	(36,293)	(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	–	–	–	4,712	1,062	5,774
At 31 December 2011	26,141	–	1,163,238	484,473	34,587	201,031	682,301	2,591,771	103,701	2,695,472
Profit or loss	–	–	–	–	–	–	(3,138)	(3,138)	(12,278)	(15,416)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	14,334	–	14,334	146	14,480
Total comprehensive income for the year	–	–	–	–	–	14,334	(3,138)	11,196	(12,132)	(936)
Exercise of share options (note 28(i))	62	–	7,604	–	(1,122)	–	–	6,544	–	6,544
Expenses related to shares issued in prior year	–	–	(1,000)	–	–	–	–	(1,000)	–	(1,000)
Capital contribution from non-controlling interests	–	–	–	(3,898)	–	–	–	(3,898)	4,150	252
Transfer of consideration shares for business acquisition in prior year (note 30)	460	–	51,127	–	–	–	–	51,587	–	51,587
Recognition of share-based payment expense (note 34(a))	–	–	–	–	11,350	–	–	11,350	6,116	17,466
Placing of new shares (note 28(ii))	1,600	–	143,089	–	–	–	–	144,689	–	144,689
Bonus issue (note 28(iii))	2,718	–	–	–	–	–	(2,718)	–	–	–
Dividend paid (note 15)	–	–	–	–	–	–	(21,743)	(21,743)	–	(21,743)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	(952)	(952)
Profit appropriation on dividend paid by a subsidiary	–	–	–	32,875	–	–	(32,875)	–	–	–
Distribution in specie (note 19(b))	–	–	–	–	–	–	(24,607)	(24,607)	24,607	–
Deemed disposal of partial interest in a subsidiary (note 19(a))	–	–	–	(51,628)	–	–	–	(51,628)	49,657	(1,971)
Recognition of share-based payment expense and deemed disposal of partial interest in a subsidiary	–	–	–	610	–	–	–	610	366	976
At 31 December 2012	30,981	–	1,364,058	462,432	44,815	215,365	597,220	2,714,871	175,513	2,890,384

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Profit before income tax		26,890	438,774
Depreciation of property, plant and equipment		18,915	17,185
Amortisation of intangible assets		58,987	36,105
Foreign exchange loss/(gain), net		1,324	(4,838)
Interest income		(1,098)	(1,203)
Interest expense		1,872	–
Loss on disposal of property, plant and equipment		12	8
Share of loss of associates		37	12,479
Share-based payment expense in respect of:–			
– granting of share options		1,714	17,680
– granting shares of subsidiary		16,728	5,774
Impairment of intangible assets		11,991	–
Impairment of goodwill		35,080	–
Write-down of inventories		825	–
Fair value gain on consideration shares		(59,140)	(163,846)
Operating cash flows before working capital changes		114,137	358,118
Decrease in inventories		(1,123)	(130)
Decrease/(increase) in trade receivables		102,075	(70,363)
Decrease/(increase) in other receivables, deposits and prepayments		8,675	(21,248)
Decrease/(increase) in amounts due from associates		180,046	(171,747)
Decrease in amounts due from related companies		2,147	16,213
Decrease in trade payables		(7,228)	(3,454)
(Decrease)/increase in deposits received other payables and accruals		(19,036)	2,241
Increase in amount due to a related company		–	53
Effect of foreign exchange rate changes		22	1,070
Net cash generated from operations		379,715	110,753
Income tax paid		(70,188)	(31,754)
Net cash generated from operating activities		309,527	78,999

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(9,265)**	(13,404)
Purchases of intangible assets		**(584,588)**	(146,811)
Proceeds on disposal of property, plant and equipment		**–**	10
Acquisitions of subsidiaries		**–**	(105,559)
Compensation from vendors in relation to acquisition of subsidiaries	24	**37,429**	–
Interest received		**1,098**	1,203
Net cash used in investing activities		**(555,326)**	(264,561)
FINANCING ACTIVITIES			
Net proceeds from issue of shares through exercise of share options		**6,544**	9,473
Payment of dividend		**(22,695)**	(38,352)
Repurchase of shares		**–**	(13,753)
Proceeds from issue of ordinary shares of a subsidiary	29	**91,629**	–
Capital contribution from non-controlling interests		**252**	–
Placing of shares		**144,689**	203,400
Net cash generated from financing activities		**220,419**	160,768
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(25,380)**	(24,794)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**387,836**	399,282
Effect of foreign exchange rate changes		**2,047**	13,348
CASH AND CASH EQUIVALENTS AT END OF YEAR		**364,503**	387,836
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**364,503**	387,836

Note:

For the year ended 31 December 2011, investing activities included an equity consideration for acquisition of assets of HK$110,693,000 which is a significant non-cash transaction.

Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**51**	214
Investments in subsidiaries	19	**1,222,632**	1,280,004
Intangible assets	20	**705,167**	235,537
		1,927,850	1,515,755
CURRENT ASSETS			
Deposits and prepayments	22	**2,684**	2,684
Other financial assets	24	**49,448**	37,429
Amounts due from subsidiaries	19	**245,418**	419,802
Amount due from a related company	35(d)	**33**	33
Bank balances and cash		**51,424**	8,024
		349,007	467,972
CURRENT LIABILITIES			
Deposits received, other payables and accruals	26	**1,726**	54,351
Amounts due to subsidiaries	19	**38,220**	37,815
Consideration shares	30	**38,115**	99,393
Dividend payable		**1,267**	1,013
		79,328	192,572
NET CURRENT ASSETS		**269,679**	275,400
NET ASSETS		**2,197,529**	1,791,155
EQUITY			
Share capital	28	**30,981**	26,141
Reserves	31	**2,166,548**	1,765,014
TOTAL EQUITY		**2,197,529**	1,791,155

Zhang Lijun
Director

Wang Chun
Director

Notes to the Financial Statements

For the year ended 31 December 2012

1. GENERAL

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

The Company and its subsidiaries (the "Group") are principally engaged in the tele-media business, lottery-related business and mobile games business in the People's Republic of China ("PRC"). During the year, a non-wholly owned subsidiary of the Company, China Mobile Games and Entertainment Group Limited, which together with its subsidiaries are principally engaged in the mobile game business, is successfully listed on the Nasdaq Global Market in the United Sates.

The Group provides internet information services 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 he 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 which can in turn fulfill its obligation as VODone Telemedia's exclusive service provider.

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

(A) ADOPTION OF NEW/REVISED HKFRSs – EFFECTIVE 1 JANUARY 2012

Amendments to HKFRS 1	Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

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 STATNDARDS ("HKFRSs") *(Continued)*

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

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

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]

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

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to four standards that are potentially relevant to the Group's operations.

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

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

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

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle *(Continued)*

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) HKAS 34 Interim Financial Reporting

The amendments clarify that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

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 STATNDARDS ("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 implentation 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.

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

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

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosure 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.

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 pronouncements. In respect of the new pronouncements, the directors anticipate that more disclosures would be made but are not yet in a position to state whether they would have material financial 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").

3. BASIS OF PREPARATION *(Continued)*

(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 consideration shares 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 Renminbi ("RMB"), while the financial statements are presented in Hong Kong dollars ("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 dollars 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(C) ASSOCIATES

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

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

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

(D) GOODWILL

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

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

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

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 useful lives are as follows:

Leasehold improvements	over the remaining terms of the lease 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(F) LEASING

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

The Group as lessee

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

(G) INTANGIBLE ASSETS

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of revenue.

Internet SNS assets	Indefinite
Platform and domain names	Indefinite
Purchased software and technology	10-15 years
Mobile games license and platform	2-7 years
Distribution networks	7-10 years
Websites	10 years
Service contracts	8 years

During the year, the estimated useful life of certain purchased software and technology was revised from five years to ten years to better reflect the useful life of the assets. The effect of the change in accounting estimate in the current year was a decrease in amortisation charge of HK$10,157,000.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(G) INTANGIBLE ASSETS *(Continued)*

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(G) INTANGIBLE ASSETS *(Continued)*

(iii) Impairment *(Continued)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(H) FINANCIAL INSTRUMENTS *(Continued)*

(iii) Financial liabilities *(Continued)*

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) INVENTORIES

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

(J) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes. 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 follows:

(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 amounts 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(K) INCOME TAXES

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(L) FOREIGN CURRENCY *(Continued)*

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 exchange fluctuation 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 exchange fluctuation reserve.

(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. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(M) EMPLOYEE BENEFITS *(Continued)*

Defined contribution retirement plan *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(O) IMPAIRMENT OF OTHER ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets with finite useful life;
- investments in subsidiaries and associates

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(P) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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); or

(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).

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

(B) KEY SOURCES OF ESTIMATION UNCERTAINTY

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) 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.

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

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

(ii) Contingent considerations

As part of the consideration transfer in business combinations as set out in notes 30, 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 30, the Group identified the issuance of 132,585,788 consideration shares as contingent considerations with a total fair value of HK$321,138,000 at the acquisition date, of which 85,762,193 shares had been transferred to equity after release of lock-up and dealing restriction. Remaining were re-measured to HK$38,115,000 as at 31 December 2012 (2011: HK$99,393,000) (note 30).

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 and operation of online shopping platform.

- Lottery-related business – Provision of a lottery operation platform through the complementary support of lottery information mobile phone lottery betting system, physical shops and the lottery weibo.

- Mobile games business – Development and provision of mobile games, as well as provision of mobile and internet value-added services, and also developing, designing and providing maintenance services 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.

6. SEGMENT REPORTING *(Continued)*

(A) BUSINESS SEGMENTS

	Tele-media business		Lottery-related business		Mobile games business		Total	
	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	**165,411**	430,010	**70,050**	203,507	**241,339**	316,555	**476,800**	950,072
Reportable segment profit/(loss)	**63,520**	157,494	**9,026**	107,200	**(69,794)**	120,539	**2,752**	385,233
Interest income	**14**	170	**–**	–	**1,084**	1,032	**1,098**	1,202
Interest expense	**–**	–	**–**	–	**1,872**	–	**1,872**	–
Impairment of intangible assets	**–**	–	**–**	–	**11,991**	–	**11,991**	–
Impairment of goodwill	**–**	–	**–**	–	**35,080**	–	**35,080**	–
Other operating expense	**–**	–	**–**	–	**37,580**	–	**37,580**	–
Depreciation and amortisation	**(24,802)**	(15,621)	**(23,989)**	(15,746)	**(28,945)**	(21,730)	**(77,736)**	(53,097)
Reportable segment assets	**1,348,658**	1,389,514	**762,758**	618,848	**839,610**	875,608	**2,951,026**	2,883,970
Additions to non-current assets	**361,387**	103,410	**136,390**	207,417	**47,675**	17,358	**545,452**	328,185
Reportable segment liabilities	**13,614**	21,239	**12,323**	22,066	**43,266**	80,005	**69,203**	123,310

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

	2012 HK$'000	2011 HK$'000
Profit before income tax		
Reportable segment profit	**2,752**	385,233
Other gains and losses	**63,295**	165,092
Share of loss of associates	**(37)**	(12,479)
Advertising expense	**–**	(44,543)
Share-based payment expense	**(1,714)**	(17,680)
Directors' remuneration	**(19,098)**	(17,842)
Salaries for administrative staffs	**(9,278)**	(8,470)
Unallocated corporate expenses	**(9,030)**	(10,537)
Consolidated profit before income tax	**26,890**	438,774

6. SEGMENT REPORTING *(Continued)*

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

	2012 **HK$'000**	2011 HK$'000
Assets		
Reportable segment assets	**2,951,026**	2,883,970
Other financial assets	**49,448**	37,429
Interest in associates	**41,411**	41,175
Bank balances and cash	**51,434**	8,135
Unallocated corporate assets	**3,053**	2,899
Consolidated total assets	**3,096,372**	2,973,608

	2012 **HK$'000**	2011 HK$'000
Liabilities		
Reportable segment liabilities	**69,203**	123,310
Deposits received, other payables and accruals	**2,971**	54,346
Other financial liabilities	**95,472**	–
Consideration shares	**38,115**	99,393
Unallocated corporate liabilities	**227**	1,087
Consolidated total liabilities	**205,988**	278,136

(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.

6. SEGMENT REPORTING *(Continued)*

(D) MAJOR CUSTOMERS

As disclosed in note 35(a), the Group's associate is the only major customer with whom transactions have exceeded 10% of the Group's revenues. Revenue from the Group's associate amounted to approximately HK$165,411,000 (2011: HK$371,876,000) in the tele-media segment and amounted to approximately HK$70,050,000 (2011: HK$129,758,000) 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:

	2012 **HK$'000**	2011 HK$'000
Revenue		
Tele-media business:		
– advertising and service income	**165,411**	430,010
Lottery–related business:		
– service and advertising income	**70,050**	203,507
Mobile games business:		
– sales of mobile communication products, mobile games and provision of maintenance service	**241,339**	316,555
	476,800	950,072

8. OTHER GAINS AND LOSSES

	2012 HK$'000	2011 HK$'000
Fair value gain on consideration shares (note)	**59,140**	163,846
Net foreign exchange (loss)/gain	**(1,324)**	4,838
Interest income	**1,098**	1,203
Loss on disposal of property, plant and equipment	**(12)**	(8)
Others	**2,256**	1,777
	61,158	171,656

Note:

It represents 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:

	2012 HK$'000	2011 HK$'000
Staff costs (excluding directors' remuneration (note 10))		
Salaries and wages	**83,266**	70,283
Pension fund contributions	**18,715**	12,255
Share-based payments	**14,684**	13,810
	116,665	96,348
Carrying amount of inventories sold	**14,555**	30,420
Write-down of inventories	**825**	–
Amortisation of intangible assets included in		
Cost of revenue	**54,141**	35,307
Administrative expenses	**4,846**	798
Depreciation of property, plant and equipment	**18,915**	17,185
Research and development costs for mobile games business	**43,348**	23,062
Listing expenses	**34,499**	–
Interest expenses for financial liabilities	**1,872**	–
Auditor's remuneration	**1,195**	1,130

10. DIRECTORS' REMUNERATION

	2012 HK$'000	2011 HK$'000
Directors' fees		
Executive directors	**7,109**	5,254
Independent non-executive directors	**411**	400
Basic remuneration, allowances and benefits in kind	**11,578**	12,835
Share-based payments	**3,758**	9,644
Pension fund contributions	**38**	36
	22,894	28,169

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
2012					
Executive directors					
Zhang Lijun	3,935	2,300	1,252	14	7,501
Wang Chun	1,319	1,769	927	14	4,029
Sin Hendrick (i)	1,855	7,509	1,579	10	10,953
Independent non-executive directors					
Loke Yu (alias Loke Hoi Lam)	165	–	–	–	165
Wang Zhichen	123	–	–	–	123
Wang Linan	123	–	–	–	123
	7,520	11,578	3,758	38	22,894

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
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 (i)	–	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

(i) Resigned on 3 October 2012.

(ii) Resigned on 31 August 2011.

There were no arrangements under which a director waived or agreed to waive any remuneration for the year (2011: 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 (2011: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, three (2011: three) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining two (2011: two) individuals are as follows:

	2012 **HK$'000**	2011 HK$'000
Basic remuneration, allowances and benefits in kind	**2,751**	3,217
Share-based payments	**2,642**	2,731
Pension fund contributions	**28**	24
	5,421	5,972

Their emoluments are within the following bands:

	2012 **No. of employees**	2011 No. of employees
HK$1,500,000 to HK$2,000,000	**1**	–
HK$2,500,000 to HK$3,000,000	**–**	1
HK$3,000,000 to HK$3,500,000	**1**	1

The emoluments paid or payable to members of senior management were within the following bands:

	2012 **No. of employees**	2011 No. of employees
Nil to HK$1,000,000	**1**	6
HK$1,000,000 to HK$1,500,000	**–**	1
HK$1,500,000 to HK$2,000,000	**1**	–
HK$2,000,000 to HK$2,500,000	**–**	1

12. INCOME TAX EXPENSE

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

	2012 **HK$'000**	2011 HK$'000
Current tax – PRC		
– provision for the year	**15,350**	30,053
– under provision in prior year	**434**	1,040
– withholding tax on distribution of retained profits of subsidiaries	**30,458**	8,463
Current tax – Hong Kong Profits Tax		
– provision for the year	**216**	1,918
– over provision in prior year	**(39)**	–
Deferred taxation (note 27)		
– attributable to the reversal of temporary differences	**(4,113)**	(2,093)
	42,306	39,381

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 year.

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 (as defined in note 19) 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 regarded 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 PRC corporate income tax ("CIT") for years 2011 to 2013, followed by a 50% reduction in CIT for the next 3 years, 2014 to 2016.

12. INCOME TAX EXPENSE *(Continued)*

(a) *(Continued)*

Huiyou Digital (Shenzhen) Ltd. is regarded 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 2012 to 2014, followed by a 50% reduction in CIT for the next 3 years, 2015 to 2017.

During the year, the Company received dividends from TMD2 attributable to the profits of the previous financial year which was subject to PRC withholding tax at 10% of the distributed profits.

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

	2012 HK$'000	2011 HK$'000
Profit before income tax	**26,890**	438,774
Taxation calculated at PRC income tax of 25% (2011: 25%)	**6,723**	109,693
Tax effect of non-taxable income	**(11,954)**	(19,963)
Tax effect of expenses not deductible for taxation purposes	**25,097**	12,110
Utilisation of previously unrecognised tax loss	**–**	(545)
Tax effect of tax losses not recognised	**14,873**	14,596
Effect of tax exemptions granted	**(21,979)**	(52,932)
Effect of lower tax rate applicable to subsidiaries as a result of preferential tax policy as described in (a)	**(10,354)**	(27,773)
Effect of tax rate in foreign jurisdictions	**9,047**	(5,308)
Under provision in prior year	**395**	1,040
Withholding tax on distribution of retained profits of subsidiaries	**30,458**	8,463
Income tax expense for the year	**42,306**	39,381

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$5,998,000 (2011: HK$54,732,000) 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:

	2012 HK$'000	2011 HK$'000
Amount of consolidated profit attributable to owners of the Company dealt with in the Company's financial statements	**5,998**	54,732
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**275,957**	61,702
Company's profit for the year	**281,955**	116,434

14. (LOSS)/EARNINGS PER SHARE

	2012 HK cents	2011 HK cents (Restated)
Basic (loss)/earnings per share	**(0.10)**	13.38
Diluted (loss)/earnings per share	**(0.10)**	13.13

The calculation of basic and diluted (loss)/earnings per share is based on the (loss)/profit for the year attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the bonus issue that took place during the year ended 31 December 2012 (note 28(iii)). Basic and diluted (loss)/earnings per share amounts for the year ended 31 December 2011 are restated to take into effect the bonus issue during the current year.

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

(Loss)/profit	**2012 HK$'000**	2011 HK$'000
(Loss)/profit for the year attributable to owners of the Company, used in the basic and diluted (loss)/earnings per share calculation	**(3,138)**	370,688

Number of shares	**2012**	2011 (Restated)
Issued ordinary shares at 1 January	**2,875,554,627**	2,638,751,496
Effect of exercise of share options	**5,383,388**	7,055,942
Effect of repurchase of shares	**–**	(1,730,520)
Effect of placing of new shares	**105,792,350**	73,232,877
Effect of shares issued on acquisition of assets	**–**	13,806,700
Effect of shares issued for acquisition of subsidiaries	**55,682,511**	38,655,901
Weighted average number of ordinary shares for basic (loss)/earnings per share	**3,042,412,876**	2,769,772,396
Effect of dilution		
– Share subject to recall (i)	**26,708,815**	44,968,663
– Share options	**2,267,393**	7,786,410
Weighted average number of ordinary shares for basic (loss)/earnings per share, adjusted for the effect of dilution	**3,071,389,084**	2,822,527,469

(i) 26,708,815 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:

	2012 **HK$'000**	2011 HK$'000
No final dividend proposed after the end of the reporting period (2011: HK0.8 cents per ordinary share)	–	21,743

The final dividend proposed after the end of the reporting period had 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:

	2012 **HK$'000**	2011 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK0.8 cents per share (2011: HK1.38 cents per share)	**21,743**	36,293

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 2011	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
Additions	525	500	9,250	2,631	1,414	14,320
Disposals	–	(70)	(26)	(404)	(686)	(1,186)
Exchange adjustments	118	66	314	583	50	1,131
At 31 December 2012	**19,084**	**9,864**	**43,731**	**32,424**	**6,755**	**111,858**
Accumulated depreciation:						
At 1 January 2011	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
Charge for the year	2,459	914	7,097	6,675	1,770	18,915
Written back on disposal	–	(63)	(12)	(50)	(304)	(429)
Exchange adjustments	81	55	188	492	28	844
At 31 December 2012	**12,600**	**7,783**	**25,908**	**17,572**	**3,044**	**66,907**
Carrying amount:						
At 31 December 2012	**6,484**	**2,081**	**17,823**	**14,852**	**3,711**	**44,951**
At 31 December 2011	8,381	2,491	15,558	19,159	4,427	50,016

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

Company	Leasehold improvements	Plant, machinery and equipment	Furniture, fixture, and office equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost:				
At 1 January 2011	1,485	629	277	2,391
Additions	–	5	47	52
At 31 December 2011	1,485	634	324	2,443
Additions	–	–	2	2
At 31 December 2012	**1,485**	**634**	**326**	**2,445**
Accumulated depreciation:				
At 1 January 2011	1,478	395	163	2,036
Charge for the year	6	125	62	193
At 31 December 2011	1,484	520	225	2,229
Charge for the year	1	106	58	165
At 31 December 2012	**1,485**	**626**	**283**	**2,394**
Carrying amount:				
At 31 December 2012	**–**	**8**	**43**	**51**
At 31 December 2011	1	114	99	214

17. INTERESTS IN ASSOCIATES

	Group	
	2012	2011
	HK$'000	HK$'000
Share of net liabilities	**(18,743)**	(18,583)
Goodwill	**60,154**	59,758
	41,411	41,175

17. INTERESTS IN ASSOCIATES *(Continued)*

The acquisition of the associate was related to the Group's tele-media services business ("Tele-media CGU") in the PRC and the carrying amount of interests in associate 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
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

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

	2012 HK$'000	2011 HK$'000
Total assets	**214,054**	386,326
Total liabilities	**(252,306)**	(424,249)
	(38,252)	(37,923)
Group's share of associates' net liabilities	**(18,743)**	(18,583)
Revenue	**223,044**	504,274
Loss for the year	**(76)**	(25,467)
Group's share of associates' loss for the year	**(37)**	(12,479)

18. GOODWILL

	Group HK$'000
Cost:	
At 1 January 2011	873,756
Adjustment to the cost of business combination (i)	(15,477)
Exchange adjustments	40,065
At 31 December 2011	898,344
Exchange adjustments	5,960
At 31 December 2012	904,304
Accumulated impairment losses:	
At 1 January 2011 and at 31 December 2011	–
Impairment losses recognised in the year	35,080
At 31 December 2012	35,080
Carrying amount:	
At 31 December 2012	869,224
At 31 December 2011	898,344

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

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

	2012 HK$'000	2011 HK$'000
Tele-media CGU (TMD) – PRC	**290,519**	288,604
Tele-media CGU (Pinzheng) – PRC	**114,102**	113,350
Mobile game CGU (Dragon Joyce) – PRC	**212,563**	211,163
Mobile game CGU (3GUU) – PRC	**204,512**	203,165
Mobile game CGU (OWX) – PRC	**82,608**	82,062
	904,304	898,344

18. GOODWILL *(Continued)*

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 is extrapolated using an estimated average growth rate of 3% (2011: 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 management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2012	2011
Operating margin	**45% – 47%**	44% – 59%
Discount rate	**19.85%**	19.11%
Growth rate within the five-year period	**23% – 56%**	10% – 40%

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

TELE-MEDIA CGU (PINZHENG)

The recoverable amounts of tele-media CGU (Pinzheng) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2011: 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 management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2012	2011
Operating margin	**35%**	51% – 65%
Discount rate	**19.14%**	21.61%
Growth rate within the five-year period	**30% – 100%**	8% – 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.

18. GOODWILL *(Continued)*

MOBILE GAME CGU (DRAGON JOYCE)

The recoverable amounts of mobile game CGU (Dragon Joyce) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2011: 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 management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2012	2011
Operating margin	**22% – 28%**	49% – 54%
Discount rate	**21.62%**	19.11%
Growth rate within the five-year period	**3% – 71%**	3% – 45%

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

MOBILE GAME CGU (3GUU)

The recoverable amounts of mobile game CGU (3GUU) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2011: 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 management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2012	2011
Operating margin	**40% – 56%**	59% – 64%
Discount rate	**21.62%**	22.04%
Growth rate within the five-year period	**5% – 54%**	5% – 69%

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 (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 five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2011: 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 management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2012	2011
Operating margin	**8%**	32% – 33%
Discount rate	**21.77%**	21.6%
Growth rate within the five-year period	**22% – 143%**	3% – 48%

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 except for mobile game CGU (OWX), HK$35,080,000 impairment losses is recognised in profit and loss for the year ended 31 December 2012.

The recognition of impairment loss in OWX Group is due to handset design revenues dropped by 60% in 2012 as market demand continues to shift strongly from feature phones to smartphones. The Company started to deliver its order from smartphone manufacturers in September 2012.

19. INVESTMENTS IN SUBSIDIARIES

	Company 2012 HK$'000	2011 HK$'000
Unlisted shares/capital contributions, at cost	**1,256,941**	1,314,313
Less: Provision for impairment	**(34,309)**	(34,309)
	1,222,632	1,280,004

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

Particulars of the Company's principal subsidiaries at 31 December 2012 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 Directly	Indirectly	Principal activities
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
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
北京日升影響廣告有限公司 (Formerly known as 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

19. INVESTMENTS 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	
Dragon Joyce Limited ("Dragon Joyce")	BVI	#	US$1,000	100%	–	Investment holding
China Mobile Games and Entertainment Group Limited ("CMGE")	The Cayman Islands	#	US$331,075	–	57.27% (Notes (a) & (b))	Investment holding
匯友數碼（深圳）有限公司 (Huiyou Digital (Shenzhen) Ltd.) [(i)]	PRC	PRC	HK$550,000	–	57.27%	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	–	57.27%	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	–	57.27%	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	–	57.27%	Development and provision of mobile games
廣州億通天下軟件開發有限公司 [(i)]	PRC	PRC	USD3,000,000	–	57.27%	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	–	57.27%	Development and provision of mobile games of smart phones
OWX Hong Kong Limited （一高香港有限公司）	Hong Kong	Hong Kong	HK$100	–	57.27%	Provision of developing, designing and maintenance services of mobile communication products

19. INVESTMENTS 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	
深圳市中拓科創科技有限公司[(i)]	PRC	PRC	RMB100,000	–	57.27%	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.

Note:

(a) On 11 May 2012, CMGE issued 26,485,961 ordinary shares at a purchase price of US$0.45307 to two investors. The Company's shareholding interest in CMGE was reduced by approximately 5.6% to approximately 63.9%.

(b) During the year, the Group proposed to spin-off CMGE by way of a separate listing on Nasdaq to be achieved by a distribution in specie by the Group, representing approximately 6.63% of the CMGE shares. CMGE had made a public filing of the registration statement with the Securities and Exchange Commission of the United States of America in connection with the distribution of CMGE's shares and the registration statement became effective on 20 September 2012. After the spin-off and the separate listing of CMGE, the Company's shareholding interest in CMGE was further reduced by approximately 6.63% to approximately 57.27%.

20. INTANGIBLE ASSETS

Group	Internet SNS assets HK$'000 (note (a))	Platform and domain names HK$'000	Purchased software and technology HK$'000	Mobile games license and platform HK$'000 (note (d))	Distribution networks HK$'000 (note (e))	Websites HK$'000 (note (f))	Service contracts HK$'000 (note (g))	Total HK$'000
Cost:								
At 1 January 2011	59,500	31,652 (note (b)(i))	12,463 (note (c)(i))	51,592	44,106	14,959	–	214,272
Additions	–	86,941 (note (b)(ii))	90,733 (note (c)(i))	11,274	–	–	125,017	313,965
Exchange difference	–	1,452	–	2,426	2,022	686	–	6,586
At 31 December 2011	59,500	120,045	103,196	65,292	46,128	15,645	125,017	534,823
Additions	–	135,121 (note (b)(iii))	351,023 (note (c)(ii))	7,658	–	–	–	493,802
Impairment	–	–	–	–	(17,425)	–	–	(17,425)
Exchange difference	–	219	–	442	306	104	(1,546)	(475)
At 31 December 2012	**59,500**	**255,385**	**454,219**	**73,392**	**29,009**	**15,749**	**123,471**	**1,010,725**
Amortisation and impairment:								
At 1 January 2011	–	–	1,039	6,154	3,686	–	–	10,879
Amortisation for the year	–	–	13,061	14,325	5,236	1,530	1,953	36,105
Exchange difference	–	–	–	665	287	34	–	986
At 31 December 2011	–	–	14,100	21,144	9,209	1,564	1,953	47,970
Amortisation for the year	–	–	16,514	18,568	5,338	1,559	15,283	57,262
Impairment	–	–	–	–	(5,434)	–	–	(5,434)
Exchange difference	–	–	–	333	115	26	127	601
At 31 December 2012	**–**	**–**	**30,614**	**40,045**	**9,228**	**3,149**	**17,363**	**100,399**
Carrying amount:								
At 31 December 2012	**59,500**	**255,385**	**423,605**	**33,347**	**19,781**	**12,600**	**106,108**	**910,326**
At 31 December 2011	59,500	120,045	89,096	44,148	36,919	14,081	123,064	486,853

20. INTANGIBLE ASSETS *(Continued)*

Company	Internet SNS assets HK$'000 (note (a))	Platform and domain names HK$'000	Purchased software and technology HK$'000 (note (c))	Total HK$'000
Cost:				
At 1 January 2011	59,500	–	12,463 (note (c)(i))	71,963
Additions	–	86,941 (note (b)(ii))	90,733 (note (c)(i))	177,674
At 31 December 2011	59,500	86,941	103,196	249,637
Additions	–	135,121 (note (b)(iii))	351,023 (note (c)(ii))	486,144
At 31 December 2012	**59,500**	**222,062**	**454,219**	**735,781**
Amortisation:				
At 1 January 2011	–	–	1,039	1,039
Amortisation for the year	–	–	13,061	13,061
At 31 December 2011	–	–	14,100	14,100
Amortisation for the year	–	–	16,514	16,514
At 31 December 2012	**–**	**–**	**30,614**	**30,614**
Carrying amount:				
At 31 December 2012	**59,500**	**222,062**	**423,605**	**705,167**
At 31 December 2011	59,500	86,941	89,096	235,537

Notes:

(a) Internet social networking service 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. As the economic benefits arising from the Internet SNS Assets are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 18).

20. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(b) Platform and domain names included the following:–

(i) In 2010, the Group acquired the miniV.tv Assets through acquisition of miniV.tv Group. As the economic benefits arising from the miniV.tv assets are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 18).

(ii) In 2011, the Group acquired an intellectual property right of a shopping website, with an indefinite useful life.

The recoverable amounts 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%, which does not exceed the long-term growth rate for e-commence industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

Operating margin	52% – 56%
Discount rate	17.96%
Growth rate within the five-year period	5% – 40%

The discount rate used is pre-tax and reflects specific risks relating to the relevant asset. The growth rate within the five-year period has been based on past experience. There is no indication that it needs to be impaired.

(iii) In 2012, the Group acquired a lottery-related intangible asset which represented a software application for lottery platform used in smartphone which would enhance the level of entertainment and interactivity in lottery purchases on users' own handsets, with an indefinite useful life.

The recoverable amounts 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%, which does not exceed the long-term growth rate for lottery industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

Operating margin	60%
Discount rate	20.78%
Growth rate within the five-year period	30% – 100%

The discount rate used is pre-tax and reflects specific risks relating to the relevant asset. The growth rate within the five-year period has been based on past experience. There is no indication that it needs to be impaired.

In addition, the Group also acquired another lottery-related intangible asset during the year. The intangible asset represented intellectual property rights of a website which would strengthen its presence in the PRC's lottery business, enhance its analytical and research capability and its appeal to lottery players, with an indefinite useful life.

The recoverable amounts 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%, which does not exceed the long-term growth rate for lottery industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

Operating margin	39%
Discount rate	20.78%
Growth rate within the five-year period	30% – 90%

The discount rate used is pre-tax and reflects specific risks relating to the relevant asset. The growth rate within the five-year period has been based on past experience. There is no indication that it needs to be impaired.

20. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(c) Purchased software and technology included software, administrative systems and software technology.

(i) The intangible assets acquired by the Group in 2010 and 2011 mainly included computer software and system applied on a number of paperless lottery platforms, with estimated useful lives of ten years. It is tested for impairment and there is no indication that it needs to be impaired.

(ii) In 2012, for the purpose of making strategic adjustment to the tele-media business operation, the Group acquired an e-commerce platform system and two software for live broadcasting on website, and video sharing used in smart phones, with estimated useful life of fifteen years. Among these intangible assets, the e-commerce platform system was acquired to converge with the original online shopping platform so as to enhance and optimize its operating capacity. The software for live broadcasting on website are acquired for the establishment of broadcasting studios for general, financial as well as entertainment news, which are for the purpose of conducting authorized businesses under the Network Audio-Video Broadcast License（網絡視聽播放許可證）issued by the State Administration of Radio Film and Television and the Internet Commercial Performances License（互聯網經營性演出許可證）issued by the Ministry of Culture of the PRC. The software for video sharing used in smart phones is mainly for enabling upload of video contents and connection play on users' own handsets, offering the quickest way for users to upload their latest video contents with minimum streaming resources so as to increase the website traffic.

In addition, the Group during the year also acquired an information website computer system which would add more functions to the portal and improve user stickiness, with estimated useful life of ten years.

The abovementioned intangible assets have been tested for impairment and there is no indication that it needs to be impaired.

(d) 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.

The Group acquired the mobile game licenses and platform through acquisition of 3GUU Group (as defined in note 30(iii)), 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.

(e) 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.

The Group acquired the distribution networks through acquisition of OWX Group (as defined in note 30(i)), with estimated useful life of seven years. The amount is fully written off during the year as the Company has stopped to trade with those customers in the list of Customer Relationship.

(f) The Group acquired the websites through acquisition of Pinzheng Group (as defined in note 30(ii)), with estimated useful life of ten years. It is tested for impairment and there is no indication that it needs to be impaired.

(g) The Group acquired a service contract through acquisition of subsidiary. Service contract represented an 8-year sport lottery sales contract dated 24 September 2011 entered with Qinghai Province Sports Lottery Administration Centre, where the Group has the right to perform sport lottery sales through mobile and internet in Qing 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 trade receivables as at the end of reporting period, based on invoice date, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within 1 month	**16,766**	134,126
2 to 3 months	**11,796**	30,460
4 to 6 months	**8,853**	26,136
7 to 12 months	**14,963**	4,471
Over 1 year	**41,632**	44
	94,010	195,237

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

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

	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**40,563**	165,410
Less than 1 month past due	**3,319**	16,348
1 to 3 months past due	**2,205**	8,199
More than 3 months past due	**47,923**	5,280
	94,010	195,237

For trade receivables aged more than 3 months past due, around 51% have been settled up to the date of issue of these financial statement. 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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current				
Other receivables	**2,880**	3,009	**–**	–
Deposits	**5,680**	5,740	**2,684**	2,684
Prepayments	**461,637**	431,720	**–**	–
	470,197	440,469	**2,684**	2,684

Included in prepayments was prepaid cost for advertising space of HK$397,660,000 (2011: HK$412,100,000). The directors are of the opinion that according to the Group's strategy plan, the Group expects to utilise such amounts in the next year.

23. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**2,227**	2,366
Work-in-progress	**628**	57
Finished goods	**–**	134
	2,855	2,557

24. OTHER FINANCIAL ASSETS

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Available-for-sale financial assets:–		
Compensation arising from profit guarantee arrangement of		
– OWX Group (note (a))	**20,364**	21,952
– 3GUU Group (note (b))	**29,084**	–
– Dragon Joyce Group (note (c))	**–**	15,477
	49,448	37,429

24. OTHER FINANCIAL ASSETS *(Continued)*

Notes:

(a) Pursuant to the profit guarantee arrangement as disclosed in (note 30(i)), the Company is entitled to recover the related consideration shares at no cost as the actual result of OWX Group for the year ended 31 December 2012 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 in 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. It is carried at fair value with changes in fair value recognised in other comprehensive income.

(b) Pursuant to the profit guarantee arrangement as disclosed in (note 30(iii)), the Company is entitled to recover the related consideration shares at no cost as the actual result of 3GUU Group for the year ended 31 December 2012 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 in 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. It is carried at fair value with changes in fair value recognised in other comprehensive income.

The budgeted result of 3GUU Group for the year ending 31 December 2013 is estimated to be less than the profit target. The estimated contingent consideration shares receivable has been recognised as an available-for-sale financial asset.

(c) 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 the actual result of Dragon Joyce Group and the relevant profit target. The compensation was estimated based on the relevant shares at fair value at the end of the reporting period. The compensation was classified as available-for-sale financial asset in consolidated statement of financial position and was carried at fair value with changes in fair value recognised in other comprehensive income. The amount was fully settled during the year.

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	
	2012	2011
	HK$'000	HK$'000
Current or less than 1 month	**3,429**	6,665
1 to 3 months	**799**	4,648
More than 3 months but less than 12 months	**250**	344
	4,478	11,657

26. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Payable for acquisition of intangible assets	**–**	52,820	**–**	52,820
Dividend payable to non-controlling interests of subsidiaries	**957**	23,364	**–**	–
Other payables	**23,238**	23,652	**1,705**	1,510
Deposits received	**911**	982	**21**	21
Accruals	**13,843**	9,544	**–**	–
	38,949	110,362	**1,726**	54,351

27. DEFERRED TAXATION

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

	Group
	Fair value adjustments
	HK$'000
At 1 January 2011	14,942
Credit to profit or loss for the year	(2,093)
Exchange difference	638
At 31 December 2011	13,487
Credit to profit or loss for the year	(4,113)
Exchange difference	68
At 31 December 2012	9,442

27. DEFERRED TAXATION *(Continued)*

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

	Group	
	2012	2011
	HK$'000	HK$'000
Unused tax losses	**21,662**	6,789

Out of the tax losses of the Group as at 31 December 2012, approximately HK$17,104,000 (2011: HK$2,231,000) has an expiry period of five years since 2010.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2012, the Group has not recognised deferred tax liabilities of HK$56,099,000 (2011: HK$74,057,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to HK$560,990,000 (2011: HK$740,570,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

28. SHARE CAPITAL

	2012	2011
	HK$'000	HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
3,098,057,138 (2011: 2,614,140,724) ordinary shares of HK$0.01 each	**30,981**	26,141

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 2011	2,398,864,996	23,989
Exercise of shares options	8,214,000	82
Shares issued for acquisition of assets in prior year	1,370,000	14
Shares issued for acquisition of assets	92,756,000	927
Placing of new shares	90,000,000	900
Repurchase of shares	(12,206,000)	(122)
Shares issued for acquisition of subsidiaries	132,585,788	1,326
	2,711,584,784	27,116
Less: consideration shares which are subject to recall (iv)	(97,444,060)	(975)
At 31 December 2011	2,614,140,724	26,141
At 1 January 2012	2,711,584,784	27,116
Exercise of shares options (i)	6,200,000	62
Placing of new shares (ii)	160,000,000	1,600
Bonus issue (iii)	271,778,478	2,718
	3,149,563,262	31,496
Less: consideration shares which are subject to recall (iv)	(51,506,124)	(515)
At 31 December 2012	3,098,057,138	30,981

Notes:

(i) During the year, certain options were exercised to subscribe for a total of 6,200,000 ordinary shares in the Company at an aggregate consideration of HK$6,544,000 of which HK$62,000 was credited to share capital and the balance of HK$6,482,000 was credited to the share premium account. HK$1,122,000 has been transferred from the share-based compensation reserve to the share premium account accordingly.

28. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(ii) In May 2012, the Company completed the placing of 160,000,000 shares which were issued at a price of HK$0.93 per share.

(iii) On 29 May 2012, the Company issued the bonus shares of 271,778,478 shares to be made on the basis of one bonus share for every ten existing shares held.

(iv) As disclosed in note 30, included in the shares issued for the acquisition of subsidiaries were 51,506,124 (2011: 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. OTHER FINANCIAL LIABILITIES (CURRENT)

	Group	
	2012	2011
	HK$'000	HK$'000
Put-option of shares in a subsidiary	**95,472**	–

On 11 May 2012, CMGE issued 26,485,961 ordinary shares at a purchase price of US$0.45307 to two investors. Under the Share Purchase Agreement, the investors have the option, jointly and not severally, to require CMGE to purchase all of the shares held by the investors in the event that (i) the IPO is consummated on or prior to the first anniversary of the consummation of the sale and issuance of the ordinary shares and the market capitalisation of the IPO ("the Company's initial public offering of its Ordinary Shares and listing on the New York Stock Exchange, Nasdaq Stock Market or other internationally recognised securities exchange") is below US$300,000,000, or (ii) the IPO has not been consummated on or prior to the first anniversary of the consummation of the sale and issuance of the ordinary shares. The returned consideration is equal to the sum of the purchase price of all investor shares plus accrued interest.

30. CONSIDERATION SHARES

	Group and the Company	
	2012	2011
	HK$'000	HK$'000
Fair value of considerations shares for business acquisition – OWX Group (note (i))	**1,415**	23,415
Fair value of considerations shares for business acquisition – Pinzheng Group (note (ii))	**14,364**	26,998
Fair value of considerations shares for business acquisition – 3GUU Group (note (iii))	**22,336**	48,980
	38,115	99,393

(i) 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 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 each year during the two-year period.

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

As part of the consideration for the acquisition of 70% of business in OWX Group, the Company was required to issue 28,694,372 new shares to the vendors at a price of HK$2.33 per share. These new shares were issued on 13 January 2011. As these consideration shares are subject to lock-up and dealing restrictions and adjustments, they were classified as financial liabilities and subsequently re-measured to fair value.

During the year, 21,217,611 (2011: 5,738,874) consideration 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 2012.

The remaining 1,911,675 consideration shares (adjusted for bonus issue), which were subject to adjustment which is principally based on OWX Group's profit for the year ended 31 December 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$360,000 (2011: HK$31,678,000) was recognised in profit and loss accordingly.

30. CONSIDERATION SHARES *(Continued)*

(ii) 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 Ji Jun and Mr. Liu Ji Cun ("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 are engaged in the provision of worldwide football lottery information and provision of lottery service supports in the PRC.

The 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 each year during 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

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

During the year, 8,822,854 (2011: 8,822,854) consideration 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 2012.

The remaining 19,410,449 consideration shares (adjusted for bonus issue), which were subject to adjustment which is principally based on Pinzheng Group's profit for the years ending 31 December 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$3,653,000 (2011: HK$36,527,000) was recognised in profit and loss accordingly.

In 2010, 2011 and 2012, the actual results of Pinzheng 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.

30. CONSIDERATION SHARES *(Continued)*

(iii) 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 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 each year during the three-year period.

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

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

During the year, 20,580,000 (2011: 20,580,000) consideration 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 2012.

The remaining 30,184,000 consideration shares (adjusted by bonus issue), which were subject to adjustment which is principally based on 3GUU Group's profit for the years ending 31 December 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$5,680,000 (2011: 66,268,000) was recognised in profit and loss accordingly.

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 2011	771,111	523,125	18,647	(36,169)	1,276,714
Profit and total comprehensive income for the year	–	–	–	116,434	116,434
Exercise of share options	11,039	–	(1,648)	–	9,391
Shares issued for acquisition of assets in prior year	3,083	–	–	–	3,083
Shares issued for acquisition of assets net of acquisition cost	106,669	–	–	–	106,669
Consideration shares for business acquisitions of subsidiaries	82,467	–	–	–	82,467
Recognition of share-based payment expense (note 34(a))	–	–	17,680	–	17,680
Transfer upon cancellation of share option	–	–	(92)	92	–
Placing of new shares	202,500	–	–	–	202,500
Repurchase of shares	(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
Profit and total comprehensive income for the year	–	–	–	281,955	281,955
Exercise of share options (note 28(i))	7,604	–	(1,122)	–	6,482
Expenses related to shares issued for acquisition of assets in prior year	(1,000)	–	–	–	(1,000)
Transfer of deferred shares for business acquisition in prior year (note 30)	51,127	–	–	–	51,127
Recognition of share-based payment expense (note 34(a))	–	–	1,714	–	1,714
Placing of new shares (note 28(ii))	143,089	–	–	–	143,089
Bonus issue (note 28(iii))	–	–	–	(2,718)	(2,718)
Distribution in specie (note 19(b))	–	–	–	(57,372)	(57,372)
Dividend paid (note 15)	–	–	–	(21,743)	(21,743)
Balance at 31 December 2012	1,364,058	523,125	35,179	244,186	2,166,548

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:–

(i) 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; and

(ii) certain portion of the profits of the Group's subsidiaries established in the PRC transferred from the retained earnings which are restricted to use pursuant to the relevant laws and regulations in the PRC.

The Company's other reserve is derived from the difference between the fair value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the group reorganisation in 1991. Under the Bermuda Companies Act 1981 (as amended), a company may make distributions to its members out of its 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 dollars.

32. OPERATING LEASE ARRANGEMENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Minimum lease payments paid under operating leases during the year	**14,547**	15,555	**2,723**	2,686

32. OPERATING LEASE ARRANGEMENTS *(Continued)*

At 31 December 2012, 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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**14,378**	15,781	**768**	2,303
In the second to fifth year, inclusive	**25,497**	42,364	**–**	768
	39,875	58,145	**768**	3,071

Operating lease payments represent rentals payable by the Group and the Company on certain of its leased properties. Leases are negotiated for an average term of one to five years at fixed rental.

33. COMMITMENTS

	2012	2011
	HK$'000	HK$'000
Contracted, but not provided for:		
– Acquisition of property, plant and equipment	**2,756**	6,514

34. SHARE-BASED PAYMENT

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

On 27 April 2012, the shareholders of the Company approved a new share option scheme (the"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 Old VODone Scheme and 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 exercise price for the share options shall be determined in accordance with the Old VODone Scheme and VODone 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.

34. SHARE-BASED PAYMENT *(Continued)*

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

(A1) The Old VODone Scheme

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

2012

	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Adjusted upon the bonus issue (Note 1)	At the end of the year	Adjusted exercise price (Note 2) HK$	Exercise period
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
	4,925,000	–	–	–	492,500	5,417,500		
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
	4,925,000	–	–	–	492,500	5,417,500		
Sin Hendrick (Note 3)								
– 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
	38,000,000	–	–	–	3,800,000	41,800,000		
Sub-total	47,850,000	–	–	–	4,785,000	52,635,000		

34. SHARE-BASED PAYMENT *(Continued)*

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

(A1) The Old VODone Scheme *(Continued)*

2012 *(Continued)*

	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Adjusted upon the bonus issue (Note 1)	At the end of the year	Adjusted exercise price (Note 2) HK$	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 Zhichen								
– 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	–	–	–	363,400	3,997,400	1.064	07/08/2009 to 06/08/2014
on 12 October 2009	5,820,000	–	–	–	582,000	6,402,000	1.527	12/10/2009 to 11/10/2014
on 4 November 2010	27,000,000	–	–	–	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	–	–	–	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 aggregate number of shares that can be subscribed for was adjusted for the bonus issue of shares made by the Company on 2 May 2012.

Note 2: The exercise prices of the share options were adjusted for the bonus issue of shares made by the Company on 2 May 2012.

Note 3: Resigned on 3 October 2012.

34. SHARE-BASED PAYMENT *(Continued)*

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

(A1) The Old VODone Scheme *(Continued)*

2011

	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price HK$	Exercise period
Options granted to executive directors							
Zhang Lijun							
– on 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 (Note 1)							
– 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 (Note 2)							
– 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		
Sub-total	31,050,000	22,835,000	(2,280,000)	–	51,605,000		

34. SHARE-BASED PAYMENT *(Continued)*

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

(A1) The Old VODone Scheme *(Continued)*

2011 *(Continued)*

	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price HK$	Exercise period
Options granted to 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
Sub-total	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
Sub-total	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		

Note 1: Resigned on 3 October 2012.

Note 2: Resigned on 31 August 2011.

34. SHARE-BASED PAYMENT *(Continued)*

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

(A2) The VODone Scheme

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

2012

	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price HK$	Exercise period
Options granted to employees/others							
on 13 September 2012	–	6,000,000	–	–	6,000,000	0.700	13/09/2012 to 12/09/2015
Total share options	–	6,000,000	–	–	6,000,000		

34. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF 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$0.909 (adjusted exercise price) per share, with closing price per share immediately before the date on which the share options were granted at HK$0.927 (adjusted closing price). The options may be exercisable during the period from 3 January 2012 to 2 January 2014.

On 13 September 2012, a total of 6,000,000 share options were granted to eligible participants and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$0.700 per share, with closing price per share immediately before the date on which the share options were granted at HK$0.670. The options may be exercisable during the period from 13 September 2012 to 12 September 2015.

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

	Granted on 3 January 2012 (the Old VODone Scheme)	**Granted on 13 September 2012 (the VODone Scheme)**
Fair value at grant date	HK$0.1955	HK$0.1227
Weighted average share price at grant date	HK$0.909	HK$0.700
Adjusted exercise price	HK$0.909	HK$0.700
Weighted average contractual life	1 year	1 year
Expected volatility	55.237%	45.503%
Expected dividend rate	0.60%	0.60%
Risk-free interest rate	0.2514%	0.2185%

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$1,714,000 (2011: HK$17,680,000), all of which was recognised an equity-settled share-based payment expenses during the year.

34. SHARE-BASED PAYMENT *(Continued)*

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

Details and movements of share options are as follows:

	Weighted average exercise price	Number '000
At 1 January 2011	HK$1.94	72,818
Granted during the year	HK$1.60	66,780
Exercised during the year	HK$1.15	(8,214)
Lapsed during the year	HK$0.10	(2,000)
At 31 December 2011	HK$1.84	129,384
Granted during the year	HK$0.76	11,000
Exercised during the year	HK$1.03	(6,200)
Adjusted for bonus issue	HK$1.68	12,818
At 31 December 2012	HK$1.64	147,002

The weighted average exercise price of options outstanding at the end of the year was HK$1.64 (2011: HK$1.84) and their weighted average remaining contractual life was 1.04 years (2011: 1.96 years). The validity period of the share options of the Company granted during the year is from 3 January 2012 to 12 September 2015 (2011: from 1 April 2011 to 2 November 2013).

Of the total number of options outstanding at the end of the year, all were exercisable at the end of 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 (2011: HK$2.34).

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

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

On 16 March 2012, a total of 639,000 shares of CMGE were allotted to directors of the Company and eligible participants, at a price of US$0.001 per share.

The fair value of the share options granted during the year was approximately HK$2,624,000. In accordance with HKFRS 2, the fair value of share options granted determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$976,000 was recognised in the profit or loss for the year ended 31 December 2012.

34. SHARE-BASED PAYMENT *(Continued)*

(C) EQUITY-SETTLED SHARE OPTION SCHEME OF THE SUBSIDIARIES – CMGE

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

	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price US$	Exercise period (Note 1)
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 (Note 2)							
– 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: 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.

Note 2: Resigned on 3 October 2012.

34. SHARE-BASED PAYMENT *(Continued)*

(C) EQUITY-SETTLED SHARE OPTION SCHEME OF THE SUBSIDIARIES – CMGE *(Continued)*

On 6 February 2012, a total of 25,835,712 share options were granted to eligible participants and entitled the grantees to subscribe for Class A ordinary shares of CMGE 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.

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

	Granted on 6 February 2012
Fair value at grant date	US$0.515
Weighted average share price at grant date	US$0.515
Exercise price	US$0.605
Weighted average contractual life	5 years
Expected volatility	51.64%
Expected dividend rate	2.00%
Risk-free interest rate	0.75%

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$30,397,000. In accordance with HKFRS 2, the fair value of share options granted deteremined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. The balance of approximately HK$15,752,000 was recognised in the profit or loss for the year ended 31 December 2012.

Details and movements of share options are as follows:

	Weighted average exercise price	**Number** '000
Granted during the year	US$0.605	22,836
At 31 December 2012	US$0.605	22,836

The weighted average exercise price of options outstanding at the end of the year was US$0.605 and their weighted average remaining contractual life was 4.10 years. The validity period of the share options of CMGE granted during the year is from 6 February 2012 to 5 February 2017.

35. RELATED PARTY TRANSACTIONS

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

	Notes	2012 HK$'000	2011 HK$'000
Service fee income earned from an associate, TMD1	(i)	**235,461**	501,634
Service fee income earned from Sino Sky	(ii)	**–**	26,598
Management fee charged by TMD1	(iii)	**31,300**	–

(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$21,777,000 (2011: HK$27,196,000) is included in trade receivables at the end of reporting period.

(iii) Under the service agreements as mentioned in (i) above, the Company, TMD1 and VODone Telemedia entered into an arrangement in which a subsidiary of VODone Telemedia provides management services to the Group in order to assist the Group in providing the internet information services. The fee was charged at cost basis and terms agreed between the related parties.

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

	2012 HK$'000	2011 HK$'000
Short term benefits	**19,136**	18,525
Share-based payments	**3,758**	9,644
	22,894	28,169

35. RELATED PARTY TRANSACTIONS *(Continued)*

(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.

(d) The amounts due from related companies, which is disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, are 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 a director of VODone Telemedia, 彩視界and the Company and has beneficial interests of the Company as at the end of reporting period. Details of the balances with the related companies are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Balance at 1 January	**2,834**	17,973
Balance at 31 December	**706**	2,834
Maximum amount outstanding during the year	**2,834**	17,973

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 2012 and 2011.

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

36. CAPITAL RISK MANAGEMENT

The Group's objectives of managing capital are 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.

37. 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 associates 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 49% (2011: 23%) and 65% (2011: 69%) of the total accounts and other receivables was due from the Group's largest customer and the five largest customers respectively.

37. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

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 amounts due from associates as there has not been a significant change in credit quality and the balances 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.

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 does 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.

37. FINANCIAL RISK MANAGEMENT *(Continued)*

SENSITIVITY ANALYSIS

The sensitivity analysis on equity price risk includes the Group's financial liabilities, which fair value or future cash flows will fluctuate because of changes in the Company's own share price. If the Company's own share price had been 5% higher/lower, profit for the year would decrease/increase by HK$1,906,000 (2011: HK$4,970,000) and the financial liabilities would increase/decrease by HK$1,906,000 (2011: HK$4,970,000).

38. 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 2012 and 2011 may be categorised as follows:

	2012 **HK$'000**	2011 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**715,173**	1,019,825
Available-for-sale financial assets	**49,448**	37,429
Financial liabilities		
Financial liabilities designated upon initial recogiston as at fair value through profit or loss:		
– Consideration shares	**38,115**	99,393
Financial liabilities measured at amortised cost	**123,241**	111,546

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Group and Company	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Available-for-sales financial assets	**–**	**–**	**49,448**	**49,448**
Financial liabilities measured at fair value				
– Consideration shares	**–**	**–**	**38,115**	**38,115**

	2011			
	Level 1	Level 2	Level 3	Total
Group and Company	HK$'000	HK$'000	HK$'000	HK$'000
Available-for-sales financial assets	–	–	37,429	37,429
Financial liabilities measured at fair value				
– Consideration shares	–	–	99,393	99,393

The following table shows the reconciliation of Level 3 fair value measurements of consideration shares:

	2012	2011
	HK$'000	HK$'000
Group and Company		
At 1 January	**99,393**	318,206
Transfer to equity upon release of lock-up and dealing restristion	**(51,633)**	(84,340)
Bonus issue (note 28(iii))	**47**	–
Fair value changes on consideration shares	**(9,692)**	(134,473)
At 31 December	**38,115**	99,393

Fair value changes on contingent consideration shares are included in 'Other gains and losses'.

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

The consideration shares are measured at fair value based on the share price of the Company and take into consideration of whether the profit guarantee is probable to be met (details refer to note 30). The management of the Group used its internal budgets and forecasts which included information about the fair value measurement using significant unobservable inputs (level 3). If the share price of the Company were 5% higher/lower while all the other variables were held constant, the fair value of the contingent consideration shares would be increased/decreased by approximately HK$1,906,000 (2011: HK$4,970,000).

39. EVENTS AFTER THE REPORTING PERIOD

On 8 February 2013, a total of 2,739,495 share options of CMGE were granted to eligible participants who are not directors or substantial shareholders of the Company, to subscribe for a total of 2,739,495 Class A ordinary shares of CMGE at an exercise price of US$0.605 per CMGE share. The options may be exercisable during the period from 8 February 2013 to 7 February 2018 with restrictions.

On 8 February 2013, a total of 1,030,100 share options of CMGE were granted to Dr. Zhang Lijun, an executive director and a substantial shareholder of the Company, and other eligible participants who are not directors or substantial shareholders of the Company, to subscribe for a total of 14,421,400 Class A ordinary shares of CMGE at an exercise price of US$6.50 per 14 CMGE shares (which equals to one ADS of CMGE). The options may be exercisable during the period from 8 February 2013 to 7 February 2018 with restrictions.

40. 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 of the Company on 26 March 2013.

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				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**476,800**	950,072	767,591	298,702	65,922
Profit/(loss) for the year	**(15,416)**	399,393	349,714	109,883	(122,538)
Attributable to:					
Owners of the Company	**(3,138)**	370,688	325,428	105,307	(121,004)
Non-controlling interests	**(12,278)**	28,705	24,286	4,576	(1,534)
	(15,416)	399,393	349,714	109,883	(122,538)

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**1,867,260**	1,482,023	1,185,518	679,788	370,248
Current assets	**1,229,112**	1,491,585	1,177,729	591,476	311,968
Current liabilities	**(196,546)**	(264,649)	(497,450)	(21,962)	(66,390)
Net current assets	**1,032,566**	1,226,936	680,279	569,514	245,578
Non-current liabilities	**(9,442)**	(13,487)	(14,942)	(9,014)	(23)
Net assets	**2,890,384**	2,695,472	1,850,855	1,240,288	615,803