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VODONE LIMITED
第一視頻集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock code: 82)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

The board of directors of VODone Limited (the “Company”) announces that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2009	2008
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	4	70,381	53,575
Cost of revenue		(21,308)	(34,758)
Gross profit		49,073	18,817
Other income	4	2,725	3,711
Other gains and losses	5	(908)	71,525
Selling and marketing expenses		(30,230)	(12,452)
Administrative expenses		(31,267)	(38,165)
Other operating expenses		—	(4,684)
Finance costs	6	—	(29,972)
Share of results of an associate		(1,804)	(40)
(Loss)/profit before tax	7	(12,411)	8,740
Income tax	8	—	—
(LOSS)/PROFIT FOR THE PERIOD		(12,411)	8,740
Other comprehensive (loss)/income:			
Exchange differences arising on translation of financial statements of overseas subsidiaries		(142)	9,253

* for identification purposes only

		Six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
<i>Notes</i>			
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD		<u>(12,553)</u>	<u>17,993</u>
(Loss)/profit attributable to:			
Owners of the parent		(11,273)	8,899
Non-controlling interests		<u>(1,138)</u>	<u>(159)</u>
		<u>(12,411)</u>	<u>8,740</u>
Total comprehensive (loss)/ income attributable to:			
Owners of the parent		(11,415)	18,151
Non-controlling interests		<u>(1,138)</u>	<u>(158)</u>
		<u>(12,553)</u>	<u>17,993</u>
(Loss)/earnings per share			
— Basic (HK Cents)		<u>(0.6)</u>	<u>0.5</u>
— Diluted (HK Cents)		<u>N/A</u>	<u>0.2</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2009 (Unaudited) HK\$'000	As at 31 December 2008 (Audited) HK\$'000
	Note		
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	10	21,728	22,268
Interest in an associate	11	50,639	52,444
Goodwill	12	265,188	265,188
Other receivable		19,490	19,495
Deposits for acquisition of property, plant and equipment		10,850	10,853
		367,895	370,248
CURRENT ASSETS			
Accounts receivable	13	5,826	148
Other receivables, deposits and prepayments		40,128	40,923
Amount due from an associate	18(d)	39,549	16,560
Amount due from a related company	18(c)	4,490	4,491
Bank balances and cash		237,787	249,846
		327,780	311,968
CURRENT LIABILITIES			
Other payables and accruals		2,816	64,947
Deposits received		706	21
Obligations under finance leases		8	8
Other borrowings		1,414	1,414
		4,944	66,390
NET CURRENT ASSETS			
		322,836	245,578
		690,731	615,826
EQUITY			
Share capital	14	19,612	17,314
Shares to be issued		—	8,292
Reserves		646,287	564,246
Equity attributable to equity holders of the Company		665,899	589,852
Non-controlling interests		24,813	25,951
TOTAL EQUITY			
		690,712	615,803
NON-CURRENT LIABILITIES			
Obligations under finance leases		19	23
		690,731	615,826

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Shares to be issued <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Share-based compensation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2008 (audited)	16,441	—	838,366	33,474	17,823	11,508	(302,583)	615,029	24,567	639,596
Shares issued on repurchase of convertible notes	867	—	29,475	—	—	—	—	30,342	—	30,342
Shares issued on exercise of share options	3	—	301	—	(85)	—	—	219	—	219
Total comprehensive income for the period	—	—	—	—	—	9,252	8,899	18,151	(158)	17,993
At 30 June 2008 (unaudited)	<u>17,311</u>	<u>—</u>	<u>868,142</u>	<u>33,474</u>	<u>17,738</u>	<u>20,760</u>	<u>(293,684)</u>	<u>663,741</u>	<u>24,409</u>	<u>688,150</u>

	Share capital <i>HK\$'000</i>	Shares to be issued <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Share-based compensation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2009 (audited)	17,314	8,292	868,746	33,474	22,170	63,443	(423,587)	589,852	25,951	615,803
Issue of shares	237	(8,292)	8,055	—	—	—	—	—	—	—
Shares issued on subscription of new shares	1,440	—	77,760	—	—	—	—	79,200	—	79,200
Shares issued on exercise of share options	621	—	8,988	—	(3,085)	—	—	6,524	—	6,524
Recognition of share-based payment expense	—	—	—	—	1,738	—	—	1,738	—	1,738
Total comprehensive loss for the period	—	—	—	—	—	(142)	(11,273)	(11,415)	(1,138)	(12,553)
At 30 June 2009 (unaudited)	<u>19,612</u>	<u>—</u>	<u>963,549</u>	<u>33,474</u>	<u>20,823</u>	<u>63,301</u>	<u>(434,860)</u>	<u>665,899</u>	<u>24,813</u>	<u>690,712</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(96,231)	(42,784)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,527)	(6,587)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	85,720	(209,088)
DECREASE IN CASH AND CASH EQUIVALENT	(12,038)	(258,459)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	(21)	3,055
CASH AND CASH EQUIVALENT AT BEGINNING OF PERIOD	249,846	553,601
CASH AND CASH EQUIVALENT AT END OF PERIOD	237,787	298,197

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

The consolidated financial statements have been prepared on the historical cost convention, as modified for the revaluation of certain financial instruments which are carried at fair value.

The condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”) which is also the functional currency of the Company.

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

In the current period, the Group has applied, for the first time, the new and revised standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA, which are effective for the Group’s financial year beginning on 1 January 2009.

The adoption of the new HKFRSs, except for HKAS 1 (Revised) as described below, had no material effect on the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

HKAS 1 (Revised) separates owner and non-owners changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but not yet effective at 30 June 2009.

HKFRSs (Amendments)	Improvements to HKFRSs May 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs April 2009 ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 39 (Amendment)	Eligible Hedged Items ³
HKFRS 1 (Revised)	First-time Adoption of HKFRSs ³
HKFRS 3 (Revised)	Business Combinations ³
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives ⁴
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners ³
HK(IFRIC) — Int 18	Transfers of Assets from Customers ⁴

¹ Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 July 2009.

⁴ Effective for annual periods ending on or after 30 June 2009.

⁵ Effective for transfer of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition dates on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27(Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed by product segments. Each of the Group's product segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other product segments.

During the period ended 30 June 2009 and 2008, the revenue and assets of the Group were mainly derived from the tele-media services in the PRC. Accordingly, no analysis by business or by geographical segment is provided for the said period.

4. REVENUE AND OTHER INCOME

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

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Telecomedia service income in relation to:		
— Advertising services	64,380	52,781
— Telecom value-added services	8	590
— Programme production	182	54
— Others	115	22
Advertising income	21	128
Lottery related income	5,675	—
	70,381	53,575
Other income		
Interest income	559	3,670
Others	2,166	41
	2,725	3,711
	73,106	57,286

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fair value gain on derivative component of convertible notes	—	54,360
Gain on repurchase of convertible note	—	19,094
Net foreign exchange losses	(908)	(1,929)
	<u>(908)</u>	<u>71,525</u>

6. FINANCE COSTS

Finance costs comprise the followings:

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Imputed interest on convertible notes	<u>—</u>	<u>29,972</u>

7. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit from operating activities is arrived at after charging:

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	2,622	1,646
Auditor's remuneration	40	183
Staff costs (excluding directors' remuneration)		
Salaries and wages	8,010	9,987
Pension fund contributions	1,626	1,507
Share-based payments	477	—
	<u>10,113</u>	<u>11,494</u>

8. INCOME TAX

No provision for income tax was made as the Group sustained tax losses for the six months ended 30 June 2008 and 2009.

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

9. (LOSS)/EARNINGS PER SHARE

	Six months ended 30 June	
	2009	2008
	(Unaudited) <i>HK cents</i>	(Unaudited) <i>HK cents</i>
Total (loss)/earnings per share	<u>(0.6)</u>	<u>0.5</u>

The calculation of basic (loss)/earnings per share attributable to the equity holders of the Company is based on the following data:

(Loss)/profit

	Six months ended 30 June	
	2009	2008
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
(Loss)/profit for the period used in the calculation of basic (loss)/earnings per share	<u>(11,273)</u>	<u>8,899</u>

Number of shares

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares (basic)	<u>1,765,444,991</u>	<u>1,644,838,842</u>

Diluted loss per share for the six months ended 30 June 2009 has not been shown as the share options outstanding as of that date had an anti-dilutive effect on the basic loss per share.

Diluted earnings per share for the six months ended 30 June 2008 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the convertible notes issued by the Company based on the reset conversion price of HK\$3.485 per share, and the Group's profit attributable to equity holders of the Company is adjusted to eliminate the fair value gain on derivative financial instruments and imputed interest.

	(Unaudited) <i>HK\$'000</i>
Profit	
Profit for the period used in the calculation of basic earnings per share	8,899
Effect of dilutive potential ordinary shares:	
— Fair value gain on derivative component of convertible notes	(11,667)
— Imputed interest on convertible notes	6,433
Profit for the period used in the calculation of diluted earnings per share	<u>3,665</u>
Diluted earnings per share (HK Cents)	<u>0.2</u>
Number of shares	
Weighted average number of ordinary shares in issue	1,644,838,842
Adjustment for assumed conversion of convertible notes	25,251,076
Weighted average number of ordinary shares for diluted earnings per share	<u>1,670,089,918</u>

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$96,000 (2008: HK\$4,484,000).

11. INTEREST IN AN ASSOCIATE

	As at 30 June 2009 (Unaudited) HK\$'000	As at 31 December 2008 (Audited) HK\$'000
Share of net liabilities	(4,270)	(2,465)
Goodwill	<u>54,909</u>	<u>54,909</u>
	<u>50,639</u>	<u>52,444</u>

Particulars of the Group's associate are as follows:—

Name of company	Place of incorporation and operation	Proportion of ownership Ownership interest	Voting power held	Principal activity
第一視頻數碼媒體技術 有限公司 (VODone Datamedia Technology Co., Ltd) ("TMD1")	PRC	49%	49%	Provision of tele-media business support and content services

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

	As at 30 June 2009 (Unaudited) HK\$'000	As at 31 December 2008 (Audited) HK\$'000
Total assets	1,005	1,103
Total liabilities	(9,722)	(6,135)
Net liabilities	(8,717)	(5,032)
Group's share of the associate's net liabilities	(4,270)	(2,465)
	Six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Revenue	64,389	624
Loss for the period	(3,689)	(145)
Group's share of the associate's loss for the period	(1,804)	(40)

12. GOODWILL

	As at 30 June 2009 (Unaudited) HK\$'000	As at 31 December 2008 (Audited) HK\$'000
Balance at beginning of period/year	265,188	231,792
Exchange adjustments	—	33,396
Balance at end of period/year	265,188	265,188

Goodwill is allocated to the Group's cash generating units ("CGUs") identified to country of operation and business segment. The carrying amounts as at 30 June 2009 were related to the Group's tele-media service business.

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

13. ACCOUNTS RECEIVABLE

An aging analysis of the accounts receivable as at the balance sheet date, based on payment due date, and net of provisions is as follows:

	As at 30 June 2009 (Unaudited) HK\$'000	As at 31 December 2008 (Audited) HK\$'000
Within 1 month	5,678	—
Over 1 year	148	148
	<u>5,826</u>	<u>148</u>

14. SHARE CAPITAL

	As at 30 June 2009 (Unaudited) HK\$'000	As at 31 December 2008 (Audited) HK\$'000
<i>Authorised:</i>		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
1,961,158,663 (31 December 2008: 1,731,366,355) ordinary shares of HK\$0.01 each	<u>19,612</u>	<u>17,314</u>

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

	Number of ordinary shares	Share capital HK\$'000
At 1 January 2008	1,644,074,049	16,441
Shares issued on repurchase of convertible notes	86,692,306	867
Shares issued on exercise of share options	600,000	6
At 31 December 2008	1,731,366,355	17,314
Shares issued on repurchase of convertible notes	23,692,308	237
Subscription of new shares	144,000,000	1,440
Shares issued on exercise of share options	62,100,000	621
At 30 June 2009	<u>1,961,158,663</u>	<u>19,612</u>

15. OPERATING LEASE ARRANGEMENTS

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases	<u>3,796</u>	<u>3,531</u>

At 30 June 2009, the Group had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	As at	As at
	30 June	31 December
	2009	2008
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within one year	8,073	4,879
In the second to fifth years, inclusive	<u>9,020</u>	<u>4,836</u>
	<u>17,093</u>	<u>9,715</u>

16. COMMITMENTS

	As at	As at
	30 June	31 December
	2009	2008
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Contracted, but not provided for:		
— Acquisition of property, plant and equipment	<u>4,194</u>	<u>5,451</u>

17. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

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

On 2 March 2009, a total of 17,000,000 share options were granted to an executive director of the Group. The options were granted at a cash consideration of HK\$1 for the grantee and entitled the grantee to subscribe for ordinary shares at an exercise price of HK\$0.157 per share. The options may be exercisable during the period from 2 March 2009 to 1 March 2012.

On 1 April 2009, a total of 5,000,000 share options were granted to an eligible participant. The options were granted at a cash consideration of HK\$1 for the grantee and entitled the grantee to subscribe for ordinary shares at an exercise price of HK\$0.153 per share. The options may be exercisable during the period from 1 April 2009 to 31 March 2012.

During the six months ended 30 June 2009, a total of 62,100,000 share options were exercised by the participants. The proceeds were used as general working capital of the Group.

18. RELATED PARTY TRANSACTIONS

Name of party	Relationship
VODone Telemedia Co. Ltd. ("VODONE")	Dr. Zhang Lijun is a shareholder of VODONE
Sino Sky Telecom Industry Group	Minority shareholder of TMD2

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

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Service fee income earned from the associate, TMD1	<u>64,380</u>	<u>53,371</u>

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

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term benefits	6,215	6,633
Share-based payments	<u>1,260</u>	<u>—</u>
	<u>7,475</u>	<u>6,633</u>

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

19. POST BALANCE SHEET EVENTS

In April 2009, the Group announced the acquisition of Domouse Domain Names, Domouse Software, Domouse Database, Domouse Message Management Platform and any assets and related intellectual property relevant to the business, by the issuance of new shares of 87,500,000 to an independent third party. The acquisition was completed in July 2009.

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the Audit Committee and approved and authorised for issue by the board of Directors on 8 September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

Turnover of the Group for the six months ended 30 June 2009 was HK\$70,381,000, an increase of around 31% as compared with the revenue in the corresponding period of last year and an increase of around 470% as compared with the second half of 2008. Net loss attributable to shareholders was HK\$11,273,000. For the six months ended 30 June 2009, a non-operating related share option expense of approximately HK\$1,738,000 was incurred while there were no such expense incurred in the corresponding period in last year. During the corresponding period of last year, profit attributable to shareholders was HK\$8,899,000, that was reached after recording a one-time gain of HK\$ 73,454,000 relating to convertible notes and deducting the imputed interest expense of HK\$29,972,000.

OPERATING ENVIRONMENT

The Group has continued to focus on the development of Internet video and new media businesses and has identified the market potential generated by the convergence of the Internet advertising, broadcasting, games and telecommunications markets including mobile lottery. The mass population of the PRC forms a solid foundation for the booming Internet and mobile market and will bring about longer term business opportunities.

Internet users in China reached over 338 million by the end of July 2009, making it the largest market in the world, well ahead of the United States. As the user population of the net community grows, the Internet advertising industry also flourishes. Reports published have indicated that despite the weak economic situations and the shrink in advertising budgets around the world (mainly Western Europe and the United States), the PRC still has plenty of growth potential. As a result of the economic slowdown, companies will look for more cost-effective ways to advertise their products and Internet advertising is the direction they are expected to turn to. For some firms, this has already become a trend. Some sectors like automakers and real property developers have cut spending on newspapers and television, instead they have increased their spending online. Continuation of such growth should benefit the VODONE BUS model and the advertising business of the www.vodone.com portal website as well as other interactive Internet business of our Group.

Since the turn of the century, the growth of mobile subscribers has been impressive. There were 678.8 million subscribers of mobile communication services in China as of the end of April 2009, growing by 1.26% on month and 16.33% on year, according to statistics published by the Ministry of Industry and Information Technology (MIIT) of the People's Republic of China. The number of subscribers at the end of April 2009 accounted for 50.7% of the country's population. Mobile subscribers in China sent out 60.25 billion text messages, averaging 2.98 messages per subscription a day in April 2009. All these indicate the potential of China's mobile phone market and that should benefit our mobile value-added services, such as mobile lottery.

BUSINESS DESCRIPTION

The Group provides tele-media services to its strategic partner, VODone Telemedia Co. Ltd. ("VODONE"), a PRC State-owned Enterprise under the Ministry of Civil Affairs, which owns the fullest set of qualifications and licenses in China's new media industry. It has obtained the Information Network Communicated Audio-Video Programme Licence, Internet News Permit, Value-added Telecom Service Operation License, Internet Publication Permit, Welfare Sales Permit and all other required licenses, ensuring itself a healthy development in the future.

China Welfare Lottery Center is responsible for monitoring and controlling the operations and purchasing of welfare lottery in the PRC, and same as the China Association of Social Workers, it is governed by the Ministry of Civil Affairs of the People's Republic of China. VODONE is a State-owned Enterprise of the China Association of Social Workers, this ensures the reliability of VODONE's lottery ticket sales distribution channel. VODONE has signed a 50-year operations contract with the Group, ensuring that the Group provides exclusive business support and a series of telemedia services to VODONE.

Strengths of VODONE

VODONE is one of the few companies that have obtained all the relevant and necessary licences from The State Administration of Radio Film and Television (“SARFT”, 國家廣播電影電視總局) and the Ministry of Information (“MII” 中華人民共和國信息產業部) and other PRC authorities, thus VODONE is able to produce and broadcast audio/video programmes through the Internet and operate telemedia related business in the PRC. This also enables VODONE to produce different types of programmes and broadcast advertisements that can penetrate to different categories of audiences with various taste and demand unlike others which rely entirely on user generated content (UGC).

Under the Internet regulation announced by the MII and SARFT, starting from 31 January 2008, companies that perform businesses related to in-house content/programme production and video streaming on the Internet, without the required licenses, would be forced to close down. Its cooperation with advertisers will also be suspended. The MII and SARFT have already taken actions vigorously.

VODONE is also one of the first authorized service providers of mobile lottery betting service for mobile end users in China and due to the cooperation with Heilongjiang Welfare Lottery Center, VODONE is believed to be the only company in China to provide nationwide mobile lottery services currently. A service agreement with a term of 96-months has been signed between the relevant partners.

Achievements and Awards in 2009

VODONE’s prominent achievements:

July 2009	“Chinese New Media Contribution Prize 2009” - General Assembly and Dissemination of Chinese brands Contribution Award (2009 中國品牌與傳播大會“品牌貢獻獎”影響中國新媒體貢獻大獎)
July 2009	“China’s Top Ten Innovative Media Figures 2009” - General Assembly and Dissemination of Chinese brands Contribution Award (2009 中國品牌與傳播大會“品牌貢獻獎”影響中國十大傳媒創新人物)
March 2009	“Award for New Media Contribution to China Advertisement in 2008-Internet Video Advertising Award” (China Advertisement & Brand Meeting for 2009)(“2008 中國廣告新媒體貢獻大獎－網路視頻廣告大獎”(2009 中國廣告與品牌大會))
February 2009	“Organization Award for the 4th Spring Festival Greeting Message of K-Touch SX4 Cup”(“天語 SX4 杯第四屆新春祝福短信組織獎”)
January 2009	Becoming a Standing Member of the China Institute of the World Trade Organization (2005-2008)(“2005-2008 中國世界貿易組織研究會 常務理事單位”)
2009	Becoming the “Exclusive Media Support for the 3rd China Creativity Industry Annual Meeting for 2008” (第一視頻為 “2008 年第三屆中國創意產業年度大會獨家視頻媒體支援”)

Dr Zhang Lijun’s personal achievements:

January 2009	“Top 10 Most Influential Innovative Persons in China Media Industry” (影響中國十大傳媒創新人物)
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OPERATION REVIEW

Tele-media service business

VODONE Broadcasting Union System (BUS) (bus.vodone.com)

VODONE BUS is at present the largest, most valuable and most influential Internet video advertisement broadcasting platform in China. It is capable of transmitting advertisements in different formats such as video, texts, flash and graphics. As one of the key revenue generator for VODONE, as of August 2009, the daily page views of VODONE BUS reached 150 million, making it one of the most influential media. Following the latest upgrade, VODONE BUS comprises of eight major channels including the Brand Channel, Finance Channel, Women's Channel and Sports Channel and now has a clearer segmentation of users and advertisements. VODONE BUS can help advertisers deliver their ads in a more accurate and convenient manner so as to advertise their brands more effectively. In addition, the Group continues to innovate and develop new formats of advertising in order to meet different needs of different advertisers. Many users have realized the benefits of VODONE BUS can bring, and as a result, our advertising services income in 2009 experienced a surge of 427% comparing with that of the second half of 2008.

VODONE Portal (www.vodone.com)

Being one of the largest video portals providing 338 million Chinese netizens with easy navigation to search for videos, VODONE Portal aggregates videos from all over and spreads out excitements. The portal undergoes constant changes and upgrades to keep up-to-date with netizens' requirements. The portal not only keeps but augments many channels, such as news, finance, sports, entertainment, original creation, games as well as integrates the various products of its subsidiary with VODONE BUS as the representative. It also provides an effective marketing platform for our business partners, online advertisers and marketers. Our product and service offerings include email, blogs, online advertisements, games and various types of content, as mentioned previously. This enables a clearer classification of video broadcasting and a more extensive coverage for the enhanced VODONE Portal.

VODONE Live (live.vodone.com)

One big feature of VODONE is its self-created video programmes and live broadcasting of such programmes with online interactions. VODONE provides a great number of channels for 338 million Chinese netizens to choose from. In 2009, VODONE launched two self-produced live programmes, "HK Stock Express"「港股直擊」 and "A Share Focus"「A股縱橫」(<http://v.vodone.com/gu>). VODONE was the first real-time live video new medium to broadcast programmes about the Hong Kong stock market. VODONE is honored to have invited the acclaimed international financial expert Wong Sir (王冠一) as the planner and organizer of "HK Stock Express"「港股直擊」, and have renowned guests to offer real-time analysis of the Hong Kong stock market, such as Mandy Lam (林賽盈) (Director of OSK), Eugene Law (羅尚沛) (Director of China Capital Investment Department of CASH Financial Services Group), Steve Cheng (鄭家華) (Associated Director of Shenyin & Wanguo Securities (Hong Kong) Limited), Ivan Ho (何啟聰) (Director of Stock Derivatives and Private Investment of ABN-AMRO) and Anthony Lam (林建華) (Vice President of Emperor Capital Group Limited Research Department).

On 27 April, 2009, VODONE became one of the first authorized service providers of mobile lottery betting service for mobile end users in China and due to the cooperation with Heilongjiang Welfare Lottery Center, VODONE is believed to be the only company in China to provide nationwide mobile lottery services currently. A service agreement with a term of 96-months of cooperation has been signed by both parties. Meanwhile, the Group has opened the “cai.vodone.com” portal named “Lottery Lifestyle” (彩民生活) broadcasting lottery related news and information exclusively supplied by China Association of Social Workers and China Philanthropy Times. VODONE and China Philanthropy Times have together launched the “Expert Lottery Comments” (專家說彩) channel, providing exclusive lottery news.

Mobile lottery has the advantage of surpassing other traditional purchasing methods by which players can make their purchasing decision whenever and wherever. Players simply need to register, log-in and download the lottery software from “cai.vodone.com” in order to study lottery information, place their bets, check their account balance, self-pick the lottery numbers or quick-pick the numbers through their handsets. In addition, the system is developed to enable the safety in achieving paperless lottery services, therefore, there is a special process of bundling the mobile number and identity card number as the certification information of user registration. There is a unique safety code generated for each lottery ticket by the Heilongjiang Welfare Lottery Center which is incomparable in nature.

On 8 July, 2009, VODONE and Heilongjiang Welfare Lottery Center launched “Constant Lottery” (時時彩) (<http://ssc.vodone.com/>). “Constant Lottery” is a type of lottery with fast pace, digit-based, fixed winning rate betting. It has 84 runs everyday, approximately every 10 minutes for each drawing from 10:00 a.m. to midnight 12:00, VODONE provides instant Internet broadcasting of Constant Lottery drawing results on its website. The “Electronic Lottery Drawing System” self-developed by Heilongjiang Welfare Lottery Center has smoothly passed the authentication by the expert panel comprising professors from the State Key Laboratory of Information Security of Chinese Academy of Sciences and Harbin Engineering University. The system ensures the safety and reliability of Constant Lottery. Meanwhile, “Constant Lottery” also provides an important channel for China welfare funding. It has drawn overwhelming attention from nationwide Chinese lottery fans and netizens since its debut on 8 July 2009.

The registered users of VODONE’s lottery business have soared to over 1,000,000 as of the end of August 2009, four months ahead of our internally budgeted plan.

Deemed as a core supporting business of China’s welfare service, lottery has already been developed as a major income in contributing to the well being of the community. In China, the number of frequent players of lottery has reached over 100 million which contributed over RMB100 billion of betting turnover every year and in which betting turnover of welfare lottery amounted for approximately RMB60 billion per annum. It witnessed the tremendous market potential of China’s lottery business. Heilongjiang Welfare Lottery Center is the first batch of agencies that received the green light from the Ministry of Finance and the Ministry of Civil Affairs of the People’s Republic of China to introduce mobile lottery service. Heilongjiang is ranked top 10 amongst national Welfare Lottery sales, and has advanced into mobile lottery service technology.

In July 2009, VODONE also launched a new online shopping platform named “Happy E-go” 「快樂易購」. In 2008, China’s online shopping transactions reached a level of RMB50 billion, and VODONE has realized this as being a very big market. Whereas most online shopping sites in China copy one another in similar ways, VODONE has managed to utilize its exclusivity and licenses and made shopping easier for its users by selling products as well as displaying them by on-line videos, users can simply scroll their mouse cursors over products they are interested in, and videos of models wearing such products would appear on their screens. This not only makes online shopping a lot more interesting, but it also eliminates possibilities of buying the wrong product. VODONE also has a sophisticated team of people to ensure the safety of shopping and the quality of products.

Domouse

In April 2009, the Company announced the acquisition of Domouse, a network community platform. The Domouse network community platform combines several successful community relationship management concepts to establish the innovative and encouraging “search of the future” Internet community management platform which is new, distinctly Chinese and has huge development prospects.

The Group believes that the combination of Domouse’s extensive network community platform and the Group’s video information platform will greatly increase the number of loyal users of our Group’s services.

Marketing

As a leading tele-media servicing operator in the PRC, we understand that its marketing resources will be a key driving force for the success of its business. The Group has a strong marketing team travelling around the PRC in understanding the needs of its customers and design products to suit their requirements. In April 2009, we appointed a consultant, Dr. Danny Lee Ka Yam, to provide advices to our marketing team. Dr. Lee worked at Ogilvy Group (China, Hong Kong and Taiwan) in various senior posts.

Moreover, in August 2009, the Group appointed Mr. Louie Wong Hong Ming as the Chief Marketing Officer. Mr. Wong is a seasoned business executive with over 18 years of extensive experience in the areas of sales and marketing, strategic planning, channel management, partner alliances and business development throughout the Asia Pacific region. Mr. Wong held various senior management positions in leading multinationals including Digital Equipment Corporation (DEC), Compaq Computer Limited (which two companies were subsequently merged with Hewlett-Packard), Check Point Software Technologies Limited and Citrix Systems. Mr. Wong holds both Bachelor and Master of Science degrees in Computer Science and an MBA from The Hong Kong Polytechnic University.

The VODONE brand name and website have both achieved very high recognition in the first half of 2009. With the continual progress and appointment of competent senior executives, the Group is expected to continue to move towards an optimistic direction.

Strategic Investors

Due to the strategic values we saw, the Group brought in Och-Ziff Capital Management Group (“Och-Ziff”) as a strategic investor. Och-Ziff is a leading global institutional asset management firm with over US\$21 billion of assets under management. On 12 June 2009, the Company announced the subscription of 144,000,000 shares by Och-Ziff, at a subscription price of HK\$0.55 per Share, raising a gross proceed of approximately HK\$79,200,000 for the Group. Following the subscription and combining the shareholding Och-Ziff purchased from the secondary markets beforehand, Och-Ziff has become a substantial shareholder holding over 10% of the issued share capital in the Company.

FINANCIAL REVIEW

Tele-media service business

The tele-media service business contributed a turnover of HK\$64,685,000 to the Group in the six months ended 30 June 2009. Such turnover represents an increase of around 21% for the corresponding period of last year and an increase of around 427% as compared with the second half of 2008. Gross profit margin increased from 35% to 69%, as a result of i) a recovery of the overall economy and the increase in on-line advertising spending; ii) our cost control measures; and iii) an increase in our brand awareness through continuous marketing and brand building activities. We worked closely with Ogilvy Group to co-organise a number of marketing activities in the period under review.

Since the second half of 2008, the Group has increased its expenditure in selling expenses to boost up the sales of VODONE, which would, directly, increase the share of income to the Group.

Lottery related income

During the period between 27 April 2009 and 30 June 2009, the Group recorded a lottery-related income of HK\$5,674,810. This income has not been accounted for revenue arisen from “Constant Lottery” as such business was launched on 8 July 2009, after the reporting period.

Liquidity and Financial Resources

As at 30 June 2009, the Group had HK\$237,787,000 cash and cash equivalents (31/12/2008: HK\$249,846,000). Working capital was HK\$322,836,000 as compared with the working capital of HK\$245,578,000 at the end of last year. The Group did not have any bank borrowings as at 30 June 2009 and at 31 December 2008. The subscription of 144,000,000 new shares by Och-Ziff on 12 June, 2009 for a consideration of approximately HK\$79,200,000 at the subscription price of HK\$0.55 per Share has increased liquidity to the Group. The exercise of share options by eligible participants of Group’s share option scheme also contributed extra liquidity to the Group. During the period under review, a total of 62,100,000 share options were exercised by the participants. The total proceeds arising from the exercise of such share options amounted to HK\$6,524,000 and were used as general working capital of the Group.

During the period under review, acquisitions of fixed assets by the Group were amounted to approximately HK\$96,000 (2008: HK\$4,484,000). Since the Group generates most of the revenue in Renminbi and incurs most of the costs in Renminbi, there were no material foreign exchange risk.

As at 30 June 2009, the Group’s current ratio was 66.3 (31/12/2008: 4.7). The Group had no debt as at 30 June 2009, and an immaterial amount as at 31 December 2008. The Director’s are of the view that, taking into account the financial resources available to the Group, the Group will have sufficient working capital for its present requirement.

Charges and Contingent Liabilities

As at 30 June 2009 and 31 December 2008, the Group had no charges on its assets and no material contingent liabilities.

Capital Structure

As at 30 June 2009, the Group had total assets of HK\$695,675,000 (31/12/2008: HK\$682,216,000) which were financed by shareholders' funds of HK\$665,899,000 (31/12/2008: HK\$589,852,000), total liabilities of HK\$4,963,000 (31/12/2008: HK\$66,413,000) and minority interests of HK\$24,813,000 (31/12/2008: HK\$25,951,000).

In April 2009, the last remaining Convertible Notes holder, whose outstanding balance was HK\$88,000,000, converted 35% of the amount into ordinary shares of the Company at a conversion price of HK\$1.3 each, with the remaining 65% repaid by the Group in cash. Accordingly, the Convertible Notes of HK\$410,000,000 issued in July 2007 had been fully discharged by the Group in 2009 rendering the Group has no debt as at 30 June 2009.

In April 2009, the Group announced the acquisition of a Domouse Domain Names, Domouse Software, Domouse Database, Domouse Message Management Platform and any assets and related intellectual property relevant to the business, by the issuance of new shares of 87,500,000 to an independent third party. The acquisition was completed in July 2009.

In June 2009, the Group announced the subscription of 144,000,000 shares by group of investors led by Och-Ziff at a subscription price of HK\$0.55, raising approximately HK\$79,200,000 for the Group. Details of the subscription were announced on 12 June 2009.

EMPLOYEES REMUNERATION AND BENEFITS

As at 30 June 2009, the Group had 213 employees in the PRC 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, responsibility, qualification and experience. The Group has implemented a staff stock option plan. Options have been granted to directors and other employees to encourage them towards enhancing the value of the Group and promote the long-term growth of the Group.

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

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2009.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save for the deviation as reported and discussed in the Corporate Governance Report as contained in the Company's 2008 Annual Report, none of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the period for the six months ended 30 June 2009, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-Laws of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules during the period for the six months ended 30 June 2009. Having made specific enquiry of all directors, each of whom has confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by the directors.

REVIEW BY AUDIT COMMITTEE

The Group's interim financial report for the six months ended 30 June 2009 have been reviewed by the audit committee which comprises three independent non-executive directors of the Company.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2009.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website (<http://ir.vodone.com>) and the Stock Exchange's website (<http://www.hkex.com.hk>). The 2009 interim report will be despatched to the shareholders and will be made available on the aforesaid websites in due course.

By Order of the Board
ZHANG Lijun
Chairman

Hong Kong, 8 September 2009

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Dr ZHANG Lijun (*Chairman*)
Ms WANG Chun
Mr YUE Hong Chu, George
Mr SIN, Hendrick

Independent Non-executive Directors:

Dr LOKE Yu alias Loke Hoi Lam
Mr WANG Zhichen
Mr WANG Linan