# VODONE LIMITED
# 第一視頻集團有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 82)**

## 2010 FINAL RESULTS ANNOUNCEMENT

The board of directors of VODone Limited (the "Company") announces that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 are as follows:

**BUSINESS HIGHLIGHTS OF THE YEAR 2010**

- Turnover increased by 157% from last year to HK$767,591,000
- Earned profit attributable to owners of the Company of HK$325,428,000 representing an increase of 209% from last year with EPS of HK13.8 cents
- A cash balance of HK$399,282,000
- Total assets of HK$2,363,247,000
- Proposed a final dividend of HK1.38 cents per share

* *for identification purpose only*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Revenue | 4 | **767,591** | 298,702 |
| Cost of revenue | | **(162,406)** | (45,948) |
| Gross profit | | **605,185** | 252,754 |
| Other gains and losses | 5 | **8,376** | 2,928 |
| Selling and marketing expenses | | **(130,364)** | (63,749) |
| Administrative expenses | | **(103,982)** | (79,380) |
| Share of loss of associates | | **(2,410)** | (1,065) |
| Profit before income tax | 6 | **376,805** | 111,488 |
| Income tax expense | 7(a) | **(27,091)** | (1,605) |
| **PROFIT FOR THE YEAR** | | **349,714** | 109,883 |
| **Other comprehensive income** | | | |
| Exchange differences arising on translation | | **47,029** | 3,076 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **396,743** | 112,959 |
| **PROFIT ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | **325,428** | 105,307 |
| Non-controlling interests | | **24,286** | 4,576 |
| | | **349,714** | 109,883 |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | **369,864** | 108,334 |
| Non-controlling interests | | **26,879** | 4,625 |
| | | **396,743** | 112,959 |
| **EARNINGS PER SHARE** | | | |
| — Basic (HK cents) | 9 | **13.8 cents** | 5.4 cents |
| — Diluted (HK cents) | 9 | **13.7 cents** | 5.4 cents |
| Dividend per share (HK cents) | | | |
| Final dividend proposed | 10 | **1.38 cents** | 0.6 cent |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*AT 31 DECEMBER 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **50,559** | 33,552 |
| Interest in associates | | **51,571** | 51,473 |
| Goodwill | | **873,756** | 474,314 |
| Intangible assets | | **203,393** | 119,596 |
| Deposits for acquisition of property, plant and equipment | | **6,239** | 853 |
| | | **1,185,518** | 679,788 |
| **CURRENT ASSETS** | | | |
| Trade receivables | *11* | **118,550** | 14,374 |
| Other receivables, deposits and prepayments | | **400,899** | 177,418 |
| Inventories | | **2,427** | — |
| Amount due from an associate | | **238,598** | 55,407 |
| Amounts due from related companies | | **17,973** | 5,218 |
| Bank balances and cash | | **399,282** | 339,059 |
| | | **1,177,729** | 591,476 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *12* | **14,524** | 151 |
| Other payables and accruals | | **131,185** | 17,528 |
| Deposits received | | **1,661** | 2,467 |
| Deferred consideration shares | | **318,206** | — |
| Taxation | | **31,874** | 1,816 |
| | | **497,450** | 21,962 |
| **NET CURRENT ASSETS** | | **680,279** | 569,514 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,865,797** | 1,249,302 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | *13* | **14,942** | 9,014 |
| **NET ASSETS** | | **1,850,855** | 1,240,288 |
| **EQUITY** | | | |
| Share capital | | **23,989** | 22,664 |
| Shares to be issued | | **3,096** | — |
| Reserves | | **1,728,239** | 1,170,816 |
| Equity attributable to owners of the Company | | **1,755,324** | 1,193,480 |
| Non-controlling interests | | **95,531** | 46,808 |
| **TOTAL EQUITY** | | **1,850,855** | 1,240,288 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
*FOR THE YEAR ENDED 31 DECEMBER 2010*

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Shares to be issued | Share premium | Contributed surplus | Share-based compen-sation reserve | Exchange fluctuation reserve | (Accu-mulated losses)/ Retained profits | Non-controlling interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2009 | 17,314 | 8,292 | 868,746 | 33,474 | 22,170 | 63,443 | (423,587) | 25,951 | 615,803 |
| Profit or loss | — | — | — | — | — | — | 105,307 | 4,576 | 109,883 |
| Other comprehensive income | — | — | — | — | — | 3,027 | — | 49 | 3,076 |
| Total comprehensive income for the year | — | — | — | — | — | 3,027 | 105,307 | 4,625 | 112,959 |
| Shares issued on repurchase of convertible notes | 237 | (8,292) | 8,055 | — | — | — | — | — | — |
| Shares issued on exercise of share options | 870 | — | 15,844 | — | (5,363) | — | — | — | 11,351 |
| Subscription of new shares | 1,440 | — | 77,760 | — | — | — | — | — | 79,200 |
| Placing of shares | 920 | — | 127,864 | — | — | — | — | — | 128,784 |
| Shares issued for | | | | | | | | | |
| — acquisition of assets | 875 | — | 58,625 | — | — | — | — | — | 59,500 |
| — acquisition of subsidiaries | 1,008 | — | 204,602 | — | — | — | — | — | 205,610 |
| Business acquisition | — | — | — | — | — | — | — | 15,855 | 15,855 |
| Dilution of shareholdings in a subsidiary | — | — | — | — | — | — | — | 377 | 377 |
| Recognition of share-based payment expense | — | — | — | — | 10,849 | — | — | — | 10,849 |
| Transfer upon cancellation of share options | — | — | — | — | (948) | — | 948 | — | — |
| At 31 December 2009 and 1 January 2010 | 22,664 | — | 1,361,496 | 33,474 | 26,708 | 66,470 | (317,332) | 46,808 | 1,240,288 |
| Profit or loss | — | — | — | — | — | — | 325,428 | 24,286 | 349,714 |
| Other comprehensive income | — | — | — | — | — | 44,436 | — | 2,593 | 47,029 |
| Total comprehensive income for the year | — | — | — | — | — | 44,436 | 325,428 | 26,879 | 396,743 |
| Shares issued on exercise of share options | 1,293 | — | 202,555 | — | (21,456) | — | — | — | 182,392 |
| Shares issued for | | | | | | | | | |
| — acquisition of assets | 32 | 3,096 | 7,060 | — | — | — | — | — | 10,188 |
| Business acquisitions | — | — | — | — | — | — | — | 21,844 | 21,844 |
| Recognition of share-based payment expense | — | — | — | — | 13,616 | — | — | — | 13,616 |
| Transfer upon cancellation of share options | — | — | — | — | (221) | — | 221 | — | — |
| Transfer of share premium to accumulated loss | — | — | (800,000) | 460,503 | — | — | 339,497 | — | — |
| Dividend paid | — | — | — | (14,216) | — | — | — | — | (14,216) |
| At 31 December 2010 | 23,989 | 3,096 | 771,111 | 479,761 | 18,647 | 110,906 | 347,814 | 95,531 | 1,850,855 |

## 1. CORPORATE INFORMATION

VODone Limited ("the Company") is a limited liability company incorporated in Bermuda. Its shares are listed on the Stock Exchange of Hong Kong Limited. The 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.

During the year, the Company and its subsidiaries (thereafter referred to as the "Group") is principally engaged in tele-media service business, lottery-related business and mobile games business in the People's Republic of China ("PRC").

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

### (a) Adoption of new/revised HKFRSs — effective 1 January 2010

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs |
| Amendments to HKAS 39 | Eligible Hedged Items |
| Amendments to HKFRS 2 | Share-based Payment — Group Cash-settled Share-based Payment Transactions |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC) — Interpretation 17 | Distributions of Non-cash Assets to Owners |
| HK Interpretation 5 | Presentation of Financial Statements — Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause |

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

HKFRS 3 (Revised) — Business Combinations and HKAS 27 (Revised) — Consolidated and Separate Financial Statements

The revised accounting policies are described in the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The Group has accounted for the acquisition of subsidiaries according to the revised standard, details of which are set out in the financial statements.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 had no impact on the current year.

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

### (b) New/revised HKFRSs that have been issued but are not yet effective

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1&2] |
| HK(IFRIC) — Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments[1] |
| HKAS 24 (Revised) | Related Party Disclosures[2] |
| Amendments to HKFRS 7 | Disclosure — Transfers of Financial Assets[3] |
| HKFRS 9 | Financial Instruments[4] |

[1] Effective for annual periods beginning on or after 1 July 2010
[2] Effective for annual periods beginning on or after 1 January 2011
[3] Effective for annual periods beginning on or after 1 July 2011
[4] Effective for annual periods beginning on or after 1 January 2013

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

## 3. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-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
- Lottery-related business
- Mobile games business

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

## 3. SEGMENT REPORTING *(continued)*

### (a) Business segments

| | Tele-media business | | Lottery-related business | | Mobile games business | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **437,525** | 217,263 | **179,252** | 64,481 | **150,814** | 16,958 | **767,591** | 298,702 |
| Reportable segment profit | **226,810** | 101,369 | **103,976** | 36,422 | **84,819** | 15,155 | **415,605** | 152,946 |
| Interest income | **1,612** | 1,257 | **—** | — | **71** | — | **1,683** | 1,257 |
| Depreciation and amortisation | **(9,642)** | (6,128) | **(1,261)** | (27) | **(8,442)** | (1,412) | **(19,345)** | (7,567) |
| Income tax expenses | **(16,348)** | (1,812) | **(7,594)** | — | **(3,149)** | 207 | **(27,091)** | (1,605) |
| Reportable segment assets | **814,840** | 622,427 | **567,161** | 97,260 | **763,500** | 289,955 | **2,145,501** | 1,009,642 |
| Additions to non-current assets | **53,360** | 15,968 | **138,026** | 61,162 | **306,253** | 270,276 | **497,639** | 347,406 |
| Reportable segment liabilities | **27,776** | 9,069 | **14,309** | 1,338 | **44,413** | 13,105 | **86,498** | 23,512 |

### (b) Reconciliation of reportable segment profit or loss, assets and liabilities

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before income tax | | |
| Reportable segment profit | **415,605** | 152,946 |
| Other gains and losses | **3,640** | 3,577 |
| Share of loss of associates | **(2,410)** | (1,065) |
| Share-based payment expense | **(13,616)** | (10,849) |
| Directors' remuneration | **(12,184)** | (19,173) |
| Salaries and wages | **(4,435)** | (4,263) |
| Unallocated corporate expenses | **(9,795)** | (9,685) |
| Consolidated profit before income tax | **376,805** | 111,488 |
| Assets | | |
| Reportable segment assets | **2,145,501** | 1,009,642 |
| Interest in associates | **51,571** | 51,473 |
| Bank balances and cash | **163,103** | 206,557 |
| Unallocated corporate assets | **3,072** | 3,592 |
| Consolidated total assets | **2,363,247** | 1,271,264 |

3. **SEGMENT REPORTING** *(continued)*

(b) **Reconciliation of reportable segment profit or loss, assets and liabilities** *(continued)*

| | **2010** | 2009 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| Liabilities | | |
| Reportable segment liabilities | **86,498** | 23,512 |
| Other payables and accruals | **107,561** | 4,997 |
| Deferred consideration shares | **318,206** | — |
| Unallocated corporate liabilities | **127** | 2,467 |
| Consolidated total liabilities | **512,392** | 30,976 |

(c) **Geographical information**

During 2010 and 2009, the Group's operations and non-current assets are situated in the PRC in which all of its revenue was derived.

(d) **Major customers**

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\$323,960,000 (2009: HK\$184,624,000) in the tele-media segment and amounted to approximately HK\$138,559,000 (2009: HK\$28,098,000) in the lottery-related segment.

4. **REVENUE**

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:

| | **2010** | 2009 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| Revenue | | |
| Tele-media business: | | |
| — advertising and service income | **437,525** | 217,263 |
| Lottery-related business: | | |
| — service and advertising income | **179,252** | 64,481 |
| Mobile games business: | | |
| — sales of mobile games and develop, design and provide maintenance service of mobile communication products | **150,814** | 16,958 |
| | **767,591** | 298,702 |

## 5. OTHER GAINS AND LOSSES

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fair value gain on deferred consideration shares | **2,932** | — |
| Net foreign exchange gain/(losses) | **2,619** | (1,906) |
| Interest income | **2,391** | 1,647 |
| Gain on deregistration of subsidiaries | **—** | 1,393 |
| Loss on dilution of shareholdings in a subsidiary | **—** | (377) |
| Loss on disposal of property, plant and equipment | **(29)** | — |
| Others | **463** | 2,171 |
| | **8,376** | 2,928 |

## 6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Staff costs (excluding directors' remuneration) | | |
| Salaries and wages | **48,986** | 18,959 |
| Pension fund contributions | **9,562** | 3,512 |
| Share-based payments | **6,944** | 6,788 |
| | **65,492** | 29,259 |
| Carrying amount of inventories sold | **10,634** | — |
| Amortisation of intangible assets | | |
| Cost of revenue | **8,186** | 1,383 |
| Administrative expenses | **1,039** | — |
| Depreciation of property, plant and equipment | **10,498** | 6,961 |
| Bad debts written off | **—** | 136 |
| Auditor's remuneration | **972** | 740 |

## 7. INCOME TAX EXPENSE

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax — PRC | | |
| — provision for the year | **27,149** | 1,812 |
| Current tax — Hong Kong Profits Tax | | |
| — provision for the year | **1,176** | — |
| Deferred taxation | | |
| — attributable to the reversal of temporary differences | **(1,234)** | (207) |
| | **27,091** | 1,605 |

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 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 year 2006 to 2008, followed by a 50% reduction in the PRC income tax for the next 3 years, 2009 to 2011.

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before income tax | **376,805** | 111,488 |
| Taxation calculated at PRC income tax of 25% (2009: 25%) | **94,201** | 27,872 |
| Tax effect of non-taxable income | **(2,696)** | (5,492) |
| Tax effect of expenses not deductible for taxation purposes | **5,892** | 8,224 |
| Utilisation of previously unrecognised tax loss | **(187)** | (12,725) |
| Tax effect of tax losses not recognised | **6,653** | — |
| Effect of tax exemptions granted | **(80,072)** | (19,794) |
| Effect of tax rates in foreign jurisdictions | **3,300** | 3,520 |
| Income tax expense for the year | **27,091** | 1,605 |

## 8. PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit for the year attributable to owners of the Company for the year ended 31 December 2010 includes a loss of HK$36,390,000 (2009: HK$69,871,000) which has been dealt with in the financial statements of the Company.

## 9. EARNINGS PER SHARE

| | **2010** | 2009 |
|---|---|---|
| | ***HK cents*** | *HK cents* |
| Basic earnings per share | **13.8** | 5.4 |
| Diluted earnings per share | **13.7** | 5.4 |

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

| | **2010** | 2009 |
|---|---|---|
| **Profit** | ***HK$'000*** | *HK$'000* |
| Profit for the year attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation | **325,428** | 105,307 |

| **Number of shares** | **2010** | 2009 |
|---|---|---|
| Issued ordinary shares at 1 January | **2,266,427,996** | 1,731,366,355 |
| Effect of shares issued on repurchase of convertible notes | **—** | 15,967,967 |
| Effect of shares issued on exercise of share options | **97,213,153** | 42,607,288 |
| Effect of shares issued on subscription of shares | **—** | 75,747,945 |
| Effect of shares issued on placing of shares | **—** | 18,147,945 |
| Effect of shares issued on acquisition of assets | **1,485,589** | 43,630,137 |
| Effect of shares issued on acquisition of subsidiaries | **—** | 18,224,920 |
| Weighted average number of ordinary share for basic earnings per share | **2,365,126,738** | 1,945,692,557 |
| Effect of dilution — share options | **8,645,819** | 10,997,058 |
| Weighted average number of ordinary share for basic earnings per share, adjusted for the effect of dilution | **2,373,772,557** | 1,956,689,615 |

The weighted average number of shares in issue during the year ended 31 December 2010 represents the 2,365,126,738 shares in issue before the end of reporting period, as if such shares had been outstanding at the acquisition date.

## 10. DIVIDENDS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Final, proposed — HK1.38 cents (2009: HK0.6 cent) per share | **34,991** | 14,216 |

At a meeting held on 29 March 2011, the directors recommended a final dividend of HK1.38 cents per ordinary share. The proposed dividends are not reflected as a dividend payable in these financial statements, but will be reflected as an appropriate of retained earnings for the year ending 31 December 2011.

## 11. TRADE RECEIVABLES

An ageing analysis of the accounts receivable as at the end of reporting period, based on invoice date is as follows:

| | **Group** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **92,669** | 20 |
| 2 to 3 months | **22,192** | 14,340 |
| 4 to 6 months | **2,492** | 3 |
| 7 to 12 months | **1,132** | — |
| Over 1 year | **65** | 11 |
| | **118,550** | 14,374 |

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

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **107,498** | 14,360 |
| Less than 1 month past due | **7,243** | — |
| 1 to 3 months past due | **3,340** | — |
| More than 3 months past due | **469** | 14 |
| | **118,550** | 14,374 |

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.

## 12. TRADE PAYABLES

Generally, the credit terms received from suppliers of the Group is 30 days. An ageing analysis of year end accounts payable is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Current or less than 1 month | **11,198** | 100 |
| 1 to 3 months | **3,197** | 3 |
| More than 3 months but less than 12 months | **129** | 48 |
| | **14,524** | 151 |

## 13. DEFERRED TAXATION

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

| | **Group Fair value adjustments** |
|---|---|
| | *HK$'000* |
| At 1 January 2009 | — |
| Business acquisition | 9,221 |
| Credit to statement of comprehensive income for the year | (207) |
| At 31 December 2009 | 9,014 |
| Business acquisition | 6,781 |
| Credit to statement of comprehensive income for the year | (1,234) |
| Exchange difference | 381 |
| At 31 December 2010 | 14,942 |

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Unused tax losses | **13,423** | 8,945 |

Out of the tax losses of the Group as at 31 December 2010, approximately HK$6,510,000 (2009: HK$8,129,000) has an expiry period of five years since 2007.

No deferred tax liability has been recorded on temporary differences of HK$423,173,000 (2009: HK$16,580,000) relating the undistributed earnings of foreign subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

**REVIEW OF ANNUAL RESULTS**

The annual results have been reviewed by the Audit Committee of the Company.

**CHAIRMAN'S STATEMENT**

It is time for us to review and look forward. Tracing VODone's milestones in 2010, we can see how rapid and solid our development was.

First of all, the lottery business of VODone has already stepped into a fast-growing stage. In early 2010, our first sports lottery shop in Guangzhou has commenced operation. About 40 million mobile handsets were pre-installed with the mobile lottery application by the end of the year. During the year, we were named one of the "Excellence Selling Organizations" by the Sports Lottery Management Center of the General Administration of Sport of China.

Since the promulgation of "Regulations for the Administration of Sales of Lottery via Internet" by the Ministry of Finance in October 2010, VODone Lottery View has been the leading player in the mobile lottery business, together with the newly acquired www.zgzcw.com (中國足彩網) and www.betrich.com (彩富網), and has formed a stronger management and operation team. Our former VODone Lottery View (www.caishijie.com), after successful integration with www.zgzcw.com (中國足彩網) and www.betrich.com (彩富網), was formally renamed as www.diyicai.com (「第一彩」) on 22 March 2011. In the meantime, we made the grand debut of "Lottery Buyers on Weibo" (「彩民微博」), which was unprecedented in China and gained the recognition of the China Sports as well as Welfare Lottery Administration Bureau as well as massive focus and support from the industry and lottery buyers. The well-received "Lottery Buyers on Weibo" has underpinned the rapid development of the lottery business. In light of this, the lottery business of VODone is expected to be the most attractive and exciting hallmark over the market in 2011.

Secondly, the general positioning of the mobile games business has achieved significant efficiency. Following the first acquisition of the mobile games company Dragon Joyce at the end of 2009, VODone has, in 2010, completed the acquisition of 3GUU- a leading mobile games developer for smart phones and OWX (一高公司) — a mobile phone solutions provider, forming in a full range production chain, offering game design and operation and game built-in, in mobile games for smart phone and non-smart mobile handsets; and in January 2011, VODone established the largest China mobile game operator "China Mobile Games and Entertainment Group". It is expected that the global mobile phone users will exceed 5.6 billion in 2011, among which 3.8 billion from the developing countries and the mobile phone users in Chinese will exceed 1 billion. Riding on this promising trend, the China Mobile Games and Entertainment Group of VODone, will seize the opportunities for business integration; use its own intellectual property right to develop and launch various single-brand mobile game products. In addition, the Company will not only actively expand mobile game market in China, but also explore the overseas market, in order to capture the greatest market share supported by large number of subscribers and strives to continue to be the largest operator in China mobile game market.

In addition, momentous breakthrough was also achieved in the tele-media business by VODone. With the unprecedented opportunities arising from the rapid growth of e-advertisement and the swift expansion of e-commerce in China, on 13 July 2010, VODone introduced the news portal — www.v1.cn, a new domain and a news portal. In pursuance of our mission, "conveying people's opinion, marking it as government policy references", we focused our effort in developing a news portal. Targeting to bring together high-level inspiration and with unique competitiveness, we drew attention and gained support from various advertising agencies and clients. Meanwhile, we actively explored the e-commerce business model, including "group buying" (www.v1tuan.com). We aim to maintain a steady profit growth through the introduction of a new channel, and develop a healthy and flourishing platform for VODone's various businesses units. As at 1 January 2011, the news portal of VODone was ranked 338th among global news portals and being the third largest news commentary portal in China following www.xinhuanet.com and www.people.com.cn.

Linfo, a location based service (LBS) mobile community, has started from scratch and progressed to be the largest LBS mobile community in China with 4 million registered users within 6-month period. In early 2011, after restructured by VODone, Linfo strives to become a successful mobile community operator. Apart from it, Linfo will develop into a massive and effective platform, joining with other business units of VODone to explore the business opportunities in mobile internet market.

All of these efforts proved that VODone had seized every opportunity, made aggressive steps with great endeavors, and successfully adopted the strategic position as the largest new media enterprise under the speedy economic development of China. We hereby summarize this positioning as, “a platform with 3 highlights”, representing 3 principal business modes, namely the advertising profit mode through the news website of VODone and its BUS on internet basis, the e-commerce profit modes of mobile games and mobile lottery on the basis of mobile internet, and the mobile community with location based service (LBS). Internally, strong synergy effect is increasingly realized among these three modes.

We are pleased to inform all the shareholders that, with the above development strategies, VODone achieved very remarkable results in 2010. The segment profits from our tele-media business, lottery related services and mobile game business recorded an increase of 123%, 185% and 460% respectively as compared to the previous year. The total profit after tax of the overall business of the Group attained an increase of 218% for the year 2010 as compared to the previous year.

The significant growth of profit from 2009 to 2010 has marked the stability, soundness, and development of various businesses lines of VODone. Further, while the China market is constantly expanding, we firmly believe that we will be benefited from the opportunities brought by the Triple Networks Convergence and continue to secure stable and rapid growth in 2011.

Overall, we can conclude the performance of VODone with the most fashionable internet slang, “VODone in 2010, the most Ogelivable’ (simply the best)!”

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating results

Turnover of the Group was HK$767,591,000, an increase of 157% when compared to last year of HK$298,702,000. The growth of the results of the Group was attributable to the overall improved performance of the businesses of the Group, in particular, the substantial increase in the contributions from new businesses in 2010 including lottery related business and mobile game business, which were launched in 2009.

## OPERATION REVIEW

VODone focused mainly on the development of the tele-media, lottery related and mobile games businesses in 2010.

### Tele-media Business

### As the leading mini-video news website in China

2010 was the “breakthrough year” for the tele-media business of VODone. The news portal of VODone, v1.cn, ranked as 496th among the Top 500 Alexa Ranking on 23 December 2010; and bounced up to 338th on 1 January 2011. According to the information of www.iresearch.cn, the news portal of VODone became the third major news portal of China following www.xinhuanet.com (新華網) and www.people.com.cn (人民網). VODone was positioned as “mini-video news portal” and instantly we were proud to be the largest one in China.

In July 2010, VODone adopted its new domain name, vl.cn, and was transformed into a mini-video news portal. The newly launched mini-video news portal of VODone created its own 16-hour live internet mini-video programs and 19.5-hour live mobile internet radio programs. With those parallel production lines of full day live video and audio programs, news could be timely broadcasted. All those in-house programs were hosted by contracted celebrities, and the audiences were able to participate in the programs and put forward their comments. That would develop an internet-based audio and video platform with an exclusive brand image in conferring more impressive and incisive commentary interactively with the stars group. Compared with other mini-video portals of which all videos are traditionally crude and uploaded by netizens, VODone's mini-video portal produced live programs which are more multitudinous, authoritative, interactive and service-oriented.

**VODone BUS — The largest and strongest mobile internet advertising platform in China**

In September 2010, VODone Bus, a product of VODone, the largest mobile internet video advertising platform in China, was officially upgraded as the V1 Bus (第一聯播網). It comprises of two major products: VBUS and MOBUS. VBUS offers traditional internet advertising business, while MOBUS engages in the emerging mobile internet advertising business. After trial run for a year, MOBUS and V1.cn were officially launched. MOBUS integrates the substantial volume of traffic flow in respect of mobile application and WAP, and makes recommendation to advertisers for media placement in product branding. With the tremendous support of advanced technology, that platform develops a full advertising coverage of the smart mobile handsets, enhances the preciseness of the advertisement placement, and creates intensive interaction between advertisers and clients. Additionally, it also provides the advertisers with various alternatives in advertising format and highly effective and quality mobile network services. Currently, with approximately 10 million mobile handset clients and approximately 20 million mobile internet advertising space, MOBUS has recorded approximately 100 million of quality and stable traffic flow daily. It becomes the largest and strongest mobile internet advertising platform in China. MOBUS and VBUS will be sold in bundle to advertising clients. The integration of internet advertising and advertising on mobile handsets, and the integration of sales in bundle which leverages on the abundant resources of the subordinate advertising agency strengthened our competitiveness and provided a multi-platform advertising services for clients.

V1 Bus has not only enhanced the structure of network platform, but also allowed a full advertising coverage of both PC and mobile handsets, resulting in a greater synergy among traffic flow, advertising products and hence clients, and a boosting profitability of the Group. The advertising packages of V1 Bus was expanded to cover embedded advertisements and calls advertising on the basis of internet advertising. V1 Bus's operational model was transformed to integrate the quality resources of the Group's sales agency and became an integrated agency, which directly reduced the cost and increased revenues. V1 Bus is a key driver of the Group's advertising revenues.

**Group buying website successfully obtained the credit certification from the Ministry of Commerce**

In 2010, VODone's group buying website, www.v1tuan.com, was officially launched. It was recognized by the China International Electronic Commerce Centre under the Ministry of Commerce in terms of its credit and integrity. Only 20 out of the 300 applications of group buying websites were granted the credit certificates and www.v1tuan.com was honored to be one of them. The certification and rating were the recognition for creditability and ranking standard for the group buying business, which was the first official credit rating from the third party for buying websites in China. In pursuing its operating principle, "open, synergic and prosperous" and the mission "providing the best quality products under a reasonable price and delivery in an efficient and convenient ways", www.v1tuan.com became a well-known group buying website in China. On 29 October 2010, the Ministry of Commerce of the People's Republic of China officially published "The Regulations on the E-Commerce Credit Certification (《電子商務信用認證規則》and www.v1tuan.com was one of the first batches of group buying websites which granted the credit certification. On 10 December 2010, www.v1tuan.com participated in the "The First Group Buying Summit in China (中國首屆團購峰會)" and was awarded "The China High Growth Group Buying Website 2010 (2010中國高成長團購網站)".

**"Line 0 of Metro (地鐵0號線)" was officially and globally launched**

On 8 December 2010, VODone — the mini-video news portal of China, organized a grand media conference in Beijing, and announced that the "Line 0 of Metro (地鐵0號線)" was officially and globally launched. That indicated the passengers would enjoy an exclusive experience in the metro with a brand-new interactive platform, attained refreshing mood and enriched experience, and relieved their bore in the metro journey. Further, it also represented that VODone — the best quality and state-owned new media enterprise for internet video sector, successfully activated its first global "metro line". On 22 December, "Line 0 of Metro" of Vodone was awarded the "Best Mobile Telecom Innovative Products Awards of China in 2010 (2010中國手機產業最佳手機電台產品創新獎)" by the "Mobile Industry Congress of China 2010 (2010中國手機產業發展大會)".

"**Line 0 of Metro Web Radio**" was invited by the World Summit Award 2011 (世界資訊峰會大獎) - Nomination of China to represent China to compete under the "(Electronic Entertainment and Games) (電子娛樂與遊戲)" group in the "2011 World Information Summit Championship" organized by the Union Nations.

Looking forward to 2011, VODone will strengthen its collaboration with the televisions, radio stations, plain media, outdoor media and other internet media. The integration of advertising resources will account for satisfying various needs of customers continuously. The tremendous platform is now emerging for the cross-media broadcasting business. It will further act as a solid foundation, in terms of the business model, to become the largest mini-video news websites in China.

**Lottery Related Business**

**Lottery Players Blog Boosted the Lottery Business with a Combination of New Media, Community and Lottery Concepts**

VODone lottery business was the first one, through the advanced new media platform and technology, and capitalising on the powerful community function of SNS, to combine "New Media", "Community" and "Lottery" concepts, and launching the most wonderful, outstanding, convenient and effective new media services for lottery players. The newly launched lottery blogging service pioneered the vertically operated lottery players blog in China. Several regional and municipal Sports Lottery Management Centers and Welfare Lottery Centers launched the service and hosted by domestic celebrities such as Huang Jianxiang (黃健翔), Zhang Lu (張路), Hai Qing (海青) and Huang Haibo (黃海波). It was well-received by lottery players and became the lottery platform for the 200 million lottery players in China to share their view on football games.

**Greater Variety of Lottery Categories and Products to facilitate internet-based live betting service**

In 2010, VODone Lottery View mainly engaged in the businesses of providing lottery information, offering mobile lottery betting and operating lottery shops. The 24-hour professional and comprehensive services along with simple and efficient platform laid down the concrete foundation of the betting business. Our services covered most of the welfare and sports lotteries in China, which included sport lotteries: Chaoji Daletou (超級大樂透), Qixingcai (七星彩) and Pailiesan (排列3); welfare lotteries: dual-colored ball, Qilecai (七樂彩) and Fucai 3D (福彩3D); single match game betting: football bet, basketball bet, football single match bet and Shengfurenjiu (勝負任九) and high frequency lotteries: PK 10, Constant Lottery (時時彩), Happy 8 (快樂8) and 5 out of 11 (11選5). VODone has become the largest lottery betting service provider by offering the biggest varieties in lotteries, developing simple and efficient platform and providing professional and comprehensive services.

In cooperation with the Beijing Welfare Lottery Center, VODone Lottery View firstly instigated an internet-based live video program to broadcast the lottery results of Two Steps (兩步彩). It facilitates the transparency and openness of lottery industry in China and promoted the effective supervision and proper enforcement of the lottery operation.

**Improved Channel for Lottery Sales**

In 2010, Lottery View broadened the business network and burgeoned its distribution channel by collaborating with major mobile software manufacturers, branded mobile manufacturers and mobile terminal operators, namely Longcheer (龍旗), Cmedia (台灣驊訊), Hangzhou SKY-MOBI (杭州斯凱), Nokia (諾基亞), Lenovo-Mobile (聯想移動), K-touch (天宇朗通), Vogins Technology (沃勤科技), Konka (康佳), China Unicom wo114116 and the mobile payment platform of China Mobile. The lottery betting system and related software of Lottery View were pre-installed into the application system of the mobile phones. Besides, VODone successfully established accessing the banking sector and formed alliance with major financial institutions such as China Minsheng Bank, China Construction Bank and The Bank of Communications. Now, the lottery business has developed into a systematic production chain and Lottery View becomes the most credible, influential and professional vertical lottery platform for lottery buyers in China. Moreover, the numerous users of Lottery View also attracted the attention and approbation from advertisers.

As "triple integration" had come to a more mature stage in China, VODone Lottery View developed a long-term and solid strategic relationship with China Digital TV (永新視博), Sumavision (數碼視訊), Beijing TV Media (京視傳媒), China Television and CTV — Ho Yong (中視和陽) and jointly developed the IPTV market of the lottery business of China. Cooperation with branded manufacturers, such as Konka (康佳), Changhong (長虹) and Haier (海爾), have been steadily progressing, which heralded a new era for "triple integration" of the lottery business in China, and provided the lottery players with more convenient lottery betting service.

In July 2010, VODone acquired the Heilongjiang Welfare paperless lottery platform with a consideration of HK$12,463,000. The paperless lottery platform of Heilongjiang Welfare Lottery Center has its exclusive strength in technology. The lottery sales system was self-developed and approved by the Ministry of Civil Affairs of the PRC and the China Welfare Lottery Management Centre. The paperless lottery platform of Heilongjiang Welfare Lottery Centre was under the unified management and directly interfaced with the lottery sales system. Moreover, it was granted the technology authentication from the Ministry of Finance of the PRC and the China Welfare Lottery Management Centre. The paperless platform provided lottery buyers with an extremely safe, strictly secured, user friendly and speedy self service transaction experience. Furthermore, the transaction process fully utilized the advantages of the modern communication technology and it was completed by the pre-devised automatic system without any human interferences.

In November 2010, VODone spent RMB100,000,000 on acquiring two websites which were operated by Beijing Pinzheng, namely www.zgzcw.com (中國足彩網) and www.betrich.com (彩富網). In China, www.zgzcw.com (中國足彩網) was principally engaged in providing worldwide football lottery information in Chinese. It was the first website which provided lottery information on worldwide football events in China. Likewise, it launched for almost 10 years and built up good reputation in lottery industry. It conveyed comprehensive and real time events information about football games in over 50 countries worldwide. When users typed the keyword "足彩" (meaning "football lottery" in Chinese) in numerous search engines, www.zgzcw.com (中國足彩網) was usually in high ranking in the priority list, for instance, it ranked no.1 in both Baidu and Google. www.betrich.com (彩富網) is engaged in offering the lottery support services in China. www.zgzcw.com and www.betrich.com had elite teams with 10 years of experience in managing lottery websites. We strongly believe that their presence would reinforce VODone Lottery View, and boosted the Group lottery business to scale new heights.

**Recognized Reputation of Lottery Platform**

With absolute market competitiveness, VODone Lottery View was awarded the "Outstanding Enterprises for Protection of Consumers' Rights on Online Transactions 2010" organized by www.315online.com.cn (網上交易保障中心) and sponsored by the Policy and Law Committee of China Electronic Commerce Association and www.chinaeclaw.com (中國電子商務法律網). Lottery View received not only recognition from lottery buyers but also authentication from officials in its branding and professionalism. In 2010, VODone was complimented as the "Outstanding Selling Organizations" by the Sports Lottery Management of the General Administration of Sport of China.

In October 2010, the Ministry of Finance of the PRC issued the "Interim Measures for the Administration of Internet Lottery Sales" and "Interim Measures for the Administration of Telephone Lottery Sales", which directed and ascertained the development of the paperless lottery in China. VODone Lottery View achieved rapid development under the Government policies and the leadership and support from Sports Lottery Management Center. 2010 was a fruitful year for the lottery industry in China. The total annual sales of lottery in China for 2010 amounted to RMB166.2 billion, representing an increase of RMB33 billion or 25% when compared to that of 2009. The annual sales of sports lottery and welfare lottery amounted to RMB69.4 billion and over RMB96 billion respectively in 2010. As of December 2010, more than 15 million users registered with VODone Lottery View and more than 40 million mobile phones handsets installed the mobile lottery service. We are well prepared for remarkable results in 2011!

## MOBILE GAME BUSINESS

### Mobile Games

With the development of 3G technology, mobile internet becomes a new focus. In addition, mobile games which applies through the mobile internet presents a rapid growth. In response to the market trend and to seize the business opportunities, VODone successfully completed the merger and acquisition of 3GUU and OWX in the second half of 2010. Thus, VODone has established its position in mobile game industry equipped with a complete production chain, i.e. the development and operation of smart phones or non-smart phones mobile games, pre-installed mobile games and a reliable payment gateway. Moreover, KKFun joined VODone in 2009, and making significant breakthrough in 2010 as well as achieving all around enhancement in mobile games design, channels, branding and team building.

### Great variety of mobile games in terms of content and category

In 2010, along with the regular enhancement on technology and strength, KKFun underwent enrichment in terms of talents, channels and resources in order to enrich and to expand the product lines. Furthermore, KKFun strengthened and enhanced the category, quantity and quality of stand-alone mobile games. It also launched 30 new stand-alone mobile games in 2010, and it presently had over 100 self-developed stand-alone mobile games. Apart from that, KKFun upgraded the mobile game platform and advanced the interconnection technology of mobile game continuously. In December 2009, KKFun embarked on a mobile game downloading platform, named "FUNBOX" which carried the mobile games with own independent intellectual rights and brand name. In 2010, the Company focused on the development of "Douwan", an online casual fighting game platform which provided various types of real-time fighting games. The release of "Douwan" represented the entrance of KKFun in the mobile online games market. The platform received good market response and the registered users reached 500,000 in two months after the service commenced.

2010 was the "Year of Branded Games" for KKFun. It closely collaborated with well-known branding institutions and enterprises in overseas and China and a number of international well known branding games were launched and received high recognition in China and abroad. Among which, the officially licensed image series stand-alone and on-line games featuring "Hai Bao", the mascot of Expo 2010 Shanghai China. "Hai Bao" series mobile game were launched on the same date as Expo 2010 Shanghai China opening ceremony. The cooperation greatly enhanced the popularity of the gaming brand of KKFun. In 2010, KKFun obtained the image license Iron Man from MARVEL of the U.S.A., and the image license of movies from "Orange Sky Golden Harvest". According to the licensing agreements, KKFun developed the mobile gaming series — "Iron Man" and "God of Gamblers". The image icons enhanced the popularity of the product.

In 2010, the development of smart mobile phones in China and overseas was overwhelming, and ANDROID represented the fastest development in smart mobile phones operating system. KKFun believed that ANDROID would be the most popular operating system in China-brand smart mobile phones. Therefore, KKFun launched a series of ANDROID mobile games in mid-2010 to capture the new business opportunities of ANDROID smart phones.

CDMA mobile phones terminal market of China Telecom developed rapidly in 2010. Given the established resources strengths with numerous mobile manufacturers and solution providers, KKFun formally stepped into the mobile gaming market backed by the Brew platform of China Telecom and successfully launched a number of mobile gaming products embedded with Brew platform at the end of the year.

**Established channels consolidation**

The number of strategic partners of KKFun, including the mobile manufacturers and the solution providers such as Lenovo (聯想), Simcom (希姆通), Gionee (金立), GameCyber (天宇) and Bird (波導), increased from around 300 in 2009 to over 500 in 2010. The strategic alliances further consolidated the terminal edge of the build-in channel.

Due to the increasing number of game products and supported operation systems of mobile phones, KKFun attempted to explore new promotion channels for mobile game in 2010. KKFun achieved a significant progress in domestic and international operators and well-renowned application stores. It started cooperating with domestic mobile operators for installing build-in games in mobile phones. Presently, KKFun is the largest build-in game partner of China Mobile — Ophone. Through the cooperation with the top three domestic mobile operators, Google and the mainstream application stores launched by well-known mobile phones terminal manufacturers, KKFun acquired higher brand awareness and was recognized by greater number of users.

**Accelerating overseas expansion**

The continuous economic growth in global market and the increasing export volume in China-made mobile phones, KKFun began to accelerate overseas expansion proactively. Pursuant to the motto, "Global Strategy of Mobile Game for KKFun GLOBAL" which was formulated in the beginning of 2010, KKFun developed a good relationship with various telecom operators in the region of East Asia, Southeastern Asia, Europe, Latin America and Africa, and the products were marketed for Thailand, India, Russia, etc. Thereupon, the overseas operational income would become the drive of future income growth in the future.

**The joining of 3GUU completes the mobile game business chain**

3GUU is the market leader which principally engages in the development and the operation of smart phone mobile game business. VODone acquired 70% of interest in 3GUU in December 2010 with a total consideration of RMB196 million. The collaboration of 3GUU enhanced the market competitive edge of VODone in smart phone mobile game business and also complemented the non-smart phone mobile game of KKFun. In September 2010, VODone acquired and established OWX, the mobile solution provider, with a consideration of RMB78.4 million. It offered full production chain functions - game design and operation and game built-in, in mobile game for smart and non-smart mobile handsets. Thus, VODone has established a leading position in the game business industry. Currently, KKFun and 3GUU together have over 10 million monthly paid subscribers.

**The Operational Qualification of 3GUU/Yinzhen (盈正)**

- The first mobile game corporation to receive the Internet Publication Permit from the General Administration of Press and Publication;
- One of the first mobile game corporations to receive the Network Culture Operations Licences from the Ministry of Culture;
- The first mobile game corporation in Guangzhou to receive the government financial subsidy in specialty development in 2009;
- One of the first strategic partners of China Mobile in operating mobile games;
- One of the first 15 strategic partners working with China Mobile in game business;
- One of the first high quality developers (content provider) of mobile gaming working with China Mobile's 'Game Zone';
- Licensed A-type gaming partner of China Mobile in the 2010 World Expo;
- The mobile game designated district partner of China Mobile in the 2010 Asian Games;
- The mobile game company which operates the largest number of supporting operational points across the provinces and counties in a given district in the PRC;
- The first mobile game company to innovate the development of operating mobile game platforms in the PRC;
- It has received many awards of the industry in recent years:—

Outstanding Contribution Award of SNS Community Service — the Chinese Mobile Industry 2010

| Year | Awarded Product/Unit | Name of Award | Grantor |
|---|---|---|---|
| 2010 | "The Creation Song" (《創世神曲》) | Golden Phoenix Award Top 10 Most popular original mobile game | General Administration of Press and Publication, Ministry of Industry and Information Technology and Publishers Association of China |
| 2010 | "Thumb Monopoly" (《拇指大富翁》) | 2009 Golden Phoenix Award Top 10 Most popular original mobile game | General Administration of Press and Publication, Ministry of Industry and Information Technology and Publishers Association of China |
| 2010 | "Civilization II" (《文明II》) | 2009 Golden Phoenix Award Top 10 Most popular original mobile game | General Administration of Press and Publication, Ministry of Industry and Information Technology and Publishers Association of China |
| 2009 | "Devil's Attack" (《惡靈來襲》) | Golden Plume Annual Best single player mobile game | Steering Committee for International Digital Interactive Entertaining Product and Technological Application in China |
| 2009 | "YY Three Kingdoms" (《YY三國》) | 2008 Golden Phoenix Award Top 10 Most popular original mobile game | General Administration of Press and Publication, Ministry of Industry and Information Technology and Publishers Association of China |
| 2008 | "Civilization online" (《文明online》) | Jin Yu Players' most anticipated mobile game | 2008 Mobile Game Summit Forum |
| 2008 | "Far seas online" (《遠洋online》) | Golden Plume Best mobile social game | Steering Committee for International Digital Interactive Entertaining Product and Technological Application in China |

| Year | Awarded Product/Unit | Name of Award | Awardee |
|---|---|---|---|
| 2008 | "Far seas online" (《遠洋online》) | Best internet game | The 3rd assessment for national best mobile application software and mobile game (Beijing software industry base common technological support system) |
| 2008 | "Far seas online" (《遠洋online》) | Best strategic game | The 3rd assessment for national best mobile application software and mobile game (Beijing software industry base common technological support system) |
| 2007 | Yinzhen (盈正) | Golden Plume Annual Best mobile game developer | Steering Committee for International Digital Interactive Entertaining Product and Technological Application in China |
| 2007 | Mobile Network Games (MNG) supporting platform | Outstanding Promotion Award for Mobile Network Gaming Business in China | 2007 Development strategy summit forum for value-added mobile market in China |
| 2007 | Mobile Network Games (MNG) supporting platform | Outstanding Performance Award for Mobile Netowrk Gaming Business in China | The 5th Expo for international network culture in China |
| 2007 | Mobile Network Games (MNG) supporting platform | 2007 Corporate Award for Outstanding Network Culture in China | The 5th Expo for international network culture in China |
| 2007 | "Fantasy Garden" (《夢幻莊園》) | Best Enrichment and Leisure Game | 2007 Major Assessment for Mobile Application Theme |

**Prospect**

Capitalizing on the significant development of mobile internet in 2010, mobile internet has developed a broad customer base and an established business model in terms of mobile game as one of the typical application of entertainment. VODone's mobile game business gained the first mover advantages in its products, terminal coverage, subscribers, income, profit and relevant operational licenses in the early stage of development of mobile internet. We believe that we are ready to capture more opportunities for further development in the future.

**The Business of Linfo**

**LBS-SNS Offers the New Trend of Income Sources of Mobile Terminals**

Social networks become highly popular and developed strong market demand among Chinese netizens with a wider customer base. Leveraged on the popularity of smart phones, mobile social networks and mobile SNS have become feasible and popular. Traditional SNS websites only offer two dimensions in terms of users' time sequence and behavioral patterns; however, the availability of LBS offers a new possibility to traditional SNS: grouping up people by geographical locations and forming a new mobile social network.

Linfo fully utilized the powerful function of location based service, enables the users to locate various living facilities in vicinity, such as roads, buildings, restaurants, hotels, etc and accessed the friends nearby at their convenience. Users not only enjoyed the prestige and excitement in the virtual reality, but also gained the convenience of actual interpersonal communication, entertainment, meal, transportation, etc. Although the LBS-SNS mode is still at its infant stage of development in China, 1 billion mobile phone users imply unlimited business opportunities ahead. The mobile map location survey service of Linfo served as a huge potential the advertising market of mobile terminals of China, and share magnificent profits to be brought by the similar market of China's new media.

Linfo has been growing rapidly since May 2010. The number of its users exceeded 4 million at the end of 2010. Linfo is the largest community with map location survey service currently in China, maintains a leading position in the area of LBS. It received various awards, such as the Mobile Entertainment Award — Entertainment of Mobile Phones, the Most Valuable Mobile Customer-end Award, the Outstanding Contribution Award of Community Service of the Chinese Mobile Industry, and the Supplier of Innovative Mobile Internet Services of the 2nd Analysys International EnfoNet Award.

Looking forward to 2011, Linfo will fully equip itself; endeavor to constantly enrich the experience of users and expand the number of active users. We believe that Linfo may become a future star of VODone Group.

**Awards:**

Awards and certificates obtained by VODone Group in 2010:

- Lottery View was awarded the Excellence Selling Organization of National Sports Lottery by General Administration of Sport
- Recognised as the "Reliable Internet Role Model Unit" by the China Internet Network Information Center in 2010
- Issued a "Online Transaction Security Certificate" by www.315online.com.cn（網上交易保障中心）to recognize VODone Lottery View as "Carefree Shopping Website"
- 2010 Contributions to Discipline and Governance for China's Internet Industry Award
- VODone was awarded The First Integrity Certification and Online Transaction Certification by the Ministry of Commerce of the People's Republic of China in 2010
- Outstanding Enterprise's Brand of Industry for Protection of Consumers' Rights relating to Online Transactions in 2010
- Awarded the "Most Influential Brand of New Media of China" in 2010
- VODone was awarded the "Most Potential Media for Investment" at the 7th Conference jointly held by various investment organizations and promoted by StanChina in 2010
- The "Best Mobile Telecom Innovative Products Awards of China in 2010"
- Supplier of Innovative Mobile Internet Services of the 2nd Analysys International EnfoNet Award 2010
- The Most Valuable Customer-end Mobile Phone Award 2010
- Outstanding Contribution Award of SNS Community Service — the Chinese Mobile Industry 2010

## FINANCIAL REVIEW

### Revenues

The tele-media business contributed a revenue of HK$437,525,000 to the Group for the year 2010, an increase of 101% from 2009. Such increase in revenue was mainly due to the higher ranking of VODone's website in global portal list, coupled with the introduction of MOBUS and www.v1.cn, receiving the attention and approbation from advertisers, which collectively contributed advertising income to the Group.

The lottery-related business contributed a revenue of HK$179,252,000 to the Group for the year 2010, an increase of 178% from 2009 which comprises of service and advertising incomes. The lottery business is operated under the name of www.diyicai.com upon the acquisition of www.zgzcw.com and www.betrich.com of PRC. Having commenced the in-depth co-operation with various competent strategic partners and reinforced the marketing effort this year, the Group recorded rapid growth in the lottery business.

Mobile games business contributed HK$150,814,000 to the turnover of the Group for the year 2010, an increase of 789% from last year. Following the acquisition of Dragon Joyce Group in September of 2009, it's brand KKFun, which specializes in games design and production in non-smart phones, constituted a new growth driver for the Group in 2010, and thus resulted in a drastic growth in the revenue of this business of the Group in 2010. We acquired OWX- a mobile solutions provider in September 2010 and 3GUU - a smart phone games designer and developer by the end of 2010, and together with Dragon Joyce Group, thus increased its synergy.

**Costs**

Despite the Group's turnover increased by 157%, the Group continues to control and stabilize its overall expenses. In 2010, selling, marketing and administrative expenses accounted for 30% of the Group's turnover, which dropped by 37.5% as compared with the corresponding expenses to the Group's turnover of 48% in 2009, reflecting the Group's determination and capability in cost control.

**Net Profit**

Profit attributable to the owners of the Company for the year was HK$325,428,000, compared to a profit of HK$105,307,000 in the last year, representing an increase of 209% on a year on year basis.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had cash and cash equivalents of HK$399,282,000 (2009: HK$339,059,000), representing an increase of 18% from last year. Working capital was HK$680,279,000 as compared with the working capital of HK$569,514,000 at the end of last year, representing an increase of 19% from last year.

As at 31 December 2010 and 2009, the Group has no debt.

## CAPITAL STRUCTURE

As at 31 December 2010, the total asset of the Group was HK$2,363,247,000 (2009: HK$1,271,264,000). Issued number of shares increased from 2,266,427,996 shares (31 December 2009) to 2,398,864,996 shares (31 December 2010), which was mainly due to the issuance of new shares as a result of assets acquisition and exercise of share options by employees. The Group's capital structure, as well as cash inflow, is therefore very healthy.

The Group controlled carefully the foreign exchange risk exposure. Exchange gain earned in the year 2010 was HK$2,619,000 (2009: loss of HK$1,906,000).

## DIVIDENDS

A final dividend of HK1.38 cents per share (2009: HK0.6 cent per share) for the year ended 31 December 2010 was proposed pursuant to a resolution passed by the Board on 29 March 2011 and shall be subject to the approval of the shareholders at the Annual General Meeting. These consolidated financial statements do not reflect this dividend payable.

**Human Resources**

As at 31 December 2010, the Group had 630 employees. The Group remunerated its employees mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as the individual's performance.

The Group will continue to emphasize on staff training and total quality management to better prepare its staff members for the upcoming changes and challenges in the market and industry.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Thursday, 19 May 2011 to Tuesday, 24 May 2011 both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting and to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 18 May 2011.

## PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

The Company had complied with the applicable code provisions of the Code on Corporate Government Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except for deviation of the code provision A.2.1. of the Code as mentioned below.

According to the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this annual report, the Board has not appointed an individual to the post of chief executive officer. The role of the chief executive officer has been performed collectively by all the executive directors, particularly by the chairman, of the Company. The Board considers that this arrangement is appropriate and cost effective in the initial phase of development of the Group and allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies. Going forward, the Board will periodically review the effectiveness of this arrangement and considers appointing an individual as chief executive officer when it considers appropriate.

## PUBLICATION OF FINAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the detailed information regarding the final results of the Group for the year ended 31 December 2010 required by paragraph 45(1) of Appendix 16 to the Listing Rules will be published on the websites of each of the Stock Exchange (www.hkexnews.hk) and the Company (ir.vodone.com).

## APPRECIATION

I would like to extend the sincere gratitude on behalf of the Board to our employees for their hard work and commitment, which has been, and will continue to be, essential for the Group's success and competitive edge in a market full of challenges and uncertainties. We also thank our shareholders for their continuous support and confidence in our Group.

By Order of the Board
**VODONE LIMITED**
**Zhang Lijun**
*Chairman*

Hong Kong, 29 March 2011

*As at the date of this announcement, the Board comprises four executive Directors, Dr. Zhang Lijun (Chairman), Ms. Wang Chun, Mr. Sin Hendrick and Mr. Li Xiaohua and three independent non-executive Directors Dr. Loke Yu (alias Loke Hoi Lam), Mr. Wang Zhichen and Mr. Wang Linan.*

** for identification purpose only*