# VODONE LIMITED

**第一視頻集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 82)**

## 2011 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of VODone Limited (the "Company" or "VODone") is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 are as follows:

**Highlights of the annual results for 2011**

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2011*

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Revenue | 4 | **950,072** | 767,591 |
| Cost of revenue | | **(284,895)** | (162,406) |
| Gross profit | | **665,177** | 605,185 |
| Other gains and losses | 5 | **171,656** | 8,376 |
| Selling and marketing expenses | | **(247,301)** | (130,364) |
| Administrative expenses | | **(138,279)** | (103,982) |
| Share of loss of associates | | **(12,479)** | (2,410) |
| Profit before income tax | 6 | **438,774** | 376,805 |
| Income tax expense | 7(a) | **(39,381)** | (27,091) |
| **PROFIT FOR THE YEAR** | | **399,393** | 349,714 |
| **Other comprehensive income** | | | |
| Exchange differences arising on translation of foreign operations | | **94,963** | 47,029 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **494,356** | 396,743 |
| **PROFIT ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | **370,688** | 325,428 |
| Non-controlling interests | | **28,705** | 24,286 |
| | | **399,393** | 349,714 |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | **460,813** | 369,864 |
| Non-controlling interests | | **33,543** | 26,879 |
| | | **494,356** | 396,743 |
| **EARNINGS PER SHARE** | | | |
| — Basic (HK cents) | 9 | **14.72 cents** | 13.76 cents |
| — Diluted (HK cents) | 9 | **14.45 cents** | 13.71 cents |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2011*

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **50,016** | 50,559 |
| Interests in associates | | **41,175** | 51,571 |
| Goodwill | | **898,344** | 873,756 |
| Intangible assets | | **486,853** | 203,393 |
| Deposits for acquisition of property, plant and equipment | | **5,635** | 6,239 |
| | | **1,482,023** | 1,185,518 |
| **CURRENT ASSETS** | | | |
| Trade receivables | 11 | **195,237** | 118,550 |
| Other receivables, deposits and prepayments | | **440,469** | 400,899 |
| Inventories | | **2,557** | 2,427 |
| Other financial assets | | **37,429** | — |
| Amounts due from associates | | **425,223** | 238,598 |
| Amounts due from related companies | | **2,834** | 17,973 |
| Bank balances and cash | | **387,836** | 399,282 |
| | | **1,491,585** | 1,177,729 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 12 | **11,657** | 14,524 |
| Other payables and accruals | | **109,380** | 131,185 |
| Deposits received | | **982** | 1,661 |
| Amount due to a related company | | **53** | — |
| Consideration shares | | **99,393** | 318,206 |
| Taxation | | **43,184** | 31,874 |
| | | **264,649** | 497,450 |
| **NET CURRENT ASSETS** | | **1,226,936** | 680,279 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,708,959** | 1,865,797 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 13 | **13,487** | 14,942 |
| **NET ASSETS** | | **2,695,472** | 1,850,855 |
| **EQUITY** | | | |
| Share capital | | **26,141** | 23,989 |
| Shares to be issued | | **—** | 3,096 |
| Reserves | | **2,565,630** | 1,728,239 |
| Equity attributable to owners of the Company | | **2,591,771** | 1,755,324 |
| Non-controlling interests | | **103,701** | 95,531 |
| **TOTAL EQUITY** | | **2,695,472** | 1,850,855 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
*FOR THE YEAR ENDED 31 DECEMBER 2011*

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Shares to be issued | Share premium | Other reserves | Share-based compensation reserve | Exchange fluctuation reserve | Retained profits/ (accumulated losses) | 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 2010 | 22,664 | — | 1,361,496 | 33,474 | 26,708 | 66,470 | (317,332) | 46,808 | 1,240,288 |
| Profit or loss | — | — | — | — | — | — | 325,428 | 24,286 | 349,714 |
| Other comprehensive income | — | — | — | — | — | 44,436 | — | 2,593 | 47,029 |
| Total comprehensive income for the year | — | — | — | — | — | 44,436 | 325,428 | 26,879 | 396,743 |
| Exercise of share options | 1,293 | — | 202,555 | — | (21,456) | — | — | — | 182,392 |
| Shares issued for acquisition of assets | 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 (note 10) | — | — | — | (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 |
| Profit or loss | — | — | — | — | — | — | 370,688 | 28,705 | 399,393 |
| Other comprehensive income | — | — | — | — | — | 90,125 | — | 4,838 | 94,963 |
| Total comprehensive income for the year | — | — | — | — | — | 90,125 | 370,688 | 33,543 | 494,356 |
| Exercise of share options | 82 | — | 11,039 | — | (1,648) | — | — | — | 9,473 |
| Shares issued for acquisition of assets in prior year | 13 | (3,096) | 3,083 | — | — | — | — | — | — |
| Shares issued for acquisition of assets, net of acquisition costs | 928 | — | 106,669 | — | — | — | — | — | 107,597 |
| Consideration Shares for business acquisitions | 351 | — | 82,467 | — | — | — | — | — | 82,818 |
| Recognition of share-based payment expense | — | — | — | — | 17,680 | — | — | — | 17,680 |
| Transfer upon cancellation of share options | — | — | — | — | (92) | — | 92 | — | — |
| Placing of new shares | 900 | — | 202,500 | — | — | — | — | — | 203,400 |
| Repurchase of shares | (122) | — | (13,631) | — | — | — | — | — | (13,753) |
| Dividend paid (note 10) | — | — | — | — | — | — | (36,293) | — | (36,293) |
| Dividend paid to non-controlling interests | — | — | — | — | — | — | — | (26,435) | (26,435) |
| Recognition of share-based payment expense and deemed disposal of partial interest in a subsidiary | — | — | — | 4,712 | — | — | — | 1,062 | 5,774 |
| At 31 December 2011 | 26,141 | — | 1,163,238 | 484,473 | 34,587 | 201,031 | 682,301 | 103,701 | 2,695,472 |

## NOTES TO FINANCIAL STATEMENTS

### 1. CORPORTATE INFORMATION

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

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

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

#### (a) Adoption of new/revised HKFRSs — effective 1 January 2011

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

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

HKFRS 3 (Amendments) — Business Combinations

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

HKAS 24 (Revised) — Related Party Disclosures

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

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

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

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

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

HKAS 28 (2011) Investments in Associates and Joint Ventures[3]

[1] Effective for annual periods beginning on or after 1 July 2011

[2] Effective for annual periods beginning on or after 1 July 2012

[3] Effective for annual periods beginning on or after 1 January 2013

[4] Effective for annual periods beginning on or after 1 January 2014

[5] Effective for annual periods beginning on or after 1 January 2015

Amendments to HKFRS 7 — Disclosures — Transfers of Financial Assets

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

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

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

HKFRS 9 — Financial Instruments

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

HKFRS 10 — Consolidated Financial Statements

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

<u>HKFRS 12 — Disclosure of Interests in Other Entities</u>

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

<u>HKFRS 13 — Fair Value Measurement</u>

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

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

## 3. 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.

### (a) Business segments

| | **Tele-media business** | | **Lottery-related business** | | **Mobile games business** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **430,010** | 437,525 | **203,507** | 179,252 | **316,555** | 150,814 | **950,072** | 767,591 |
| Reportable segment profit | **157,494** | 226,810 | **107,200** | 103,976 | **120,539** | 84,819 | **385,233** | 415,605 |
| Interest income | **170** | 1,612 | **—** | — | **1,032** | 71 | **1,202** | 1,683 |
| Depreciation and amortisation | **(15,621)** | (9,642) | **(15,746)** | (1,261) | **(21,730)** | (8,442) | **(53,097)** | (19,345) |
| Income tax expenses | **(17,508)** | (16,348) | **(8,893)** | (7,594) | **(12,980)** | (3,149) | **(39,381)** | (27,091) |
| Reportable segment assets | **1,389,514** | 814,840 | **618,848** | 567,161 | **875,608** | 763,500 | **2,883,970** | 2,145,501 |
| Additions to non-current assets | **103,410** | 53,360 | **207,417** | 138,026 | **17,358** | 306,253 | **328,185** | 497,639 |
| Reportable segment liabilities | **21,239** | 27,776 | **22,066** | 14,309 | **80,005** | 44,413 | **123,310** | 86,498 |

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

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

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

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

(c) **Geographical information**

During 2011 and 2010, the Group's operations and non-current assets are situated in the PRC in which over 90% 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$371,876,000 (2010: HK$323,960,000) in the tele-media segment and amounted to approximately HK$129,758,000 (2010: HK$138,559,000) in the lottery-related segment.

## 4. REVENUE

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

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

## 5. OTHER GAINS AND LOSSES

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

## 6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

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

## 7. INCOME TAX EXPENSE

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

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

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

TMD2 is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%. TMD2 has also obtained a tax concession from local tax authority in which the Company was fully exempted from PRC Corporate Income Tax ("CIT") for years 2006 to 2008, followed by a 50% reduction in CIT for the next 3 years, 2009 to 2011.

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

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

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

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

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

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

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

## 9. EARNINGS PER SHARE

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

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

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

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

(i) The weighted average number of shares in issue during the year ended 31 December 2010 represents the 1,370,000 shares in issue before the end of reporting period, as if such shares had been outstanding since the acquisition date.

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

## 10. DIVIDENDS

(i) **Dividends payable to owners of the Company attributable to the year**

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

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

(ii) **Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year:**

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

## 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 | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **134,126** | 92,669 |
| 2 to 3 months | **30,460** | 22,192 |
| 4 to 6 months | **26,136** | 2,492 |
| 7 to 12 months | **4,471** | 1,132 |
| Over 1 year | **44** | 65 |
| | **195,237** | 118,550 |

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

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

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

Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 12. TRADE PAYABLES

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

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

## 13. DEFERRED TAXATION

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

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

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

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

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

No deferred tax liability has been recorded on temporary differences of HK$740,565,000 (2010: HK$423,173,000) relating the undistributed earnings of foreign subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## REVIEW OF ANNUAL RESULTS

The annual results for the year ended 31 December 2011 has been reviewed by the audit committee of the Company.

## CHAIRMAN'S STATEMENT

## 2011 VODONE: PROGRESSIVE AND PRUDENT EFFORTS YIELDING REMARKABLE RESULTS

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

### I. Tele-media Business

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

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

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

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

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

II. **Lottery Related Business**

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

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

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

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

## III. Mobile Games Business

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

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

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

It has been six years since the listing of the shares of VODone on the main board of the Stock Exchange in 2006. There is an old Chinese saying: Distance tests the endurance of a horse and time reveals the heart of a person (Time will prove it). No matter how the global financial conditions or domestic and international situations play out, VODone's management will, in line with our high sense of responsibility and progressive spirit, strive to maintain the steady and sustainable development of our principal activities and maximize shareholders' value, by sticking to our philosophy of development, transforming pressure into impetus, overcoming all kinds of difficulties, and utilizing our knowledge of the global market and in-depth understanding of the Mainland China market. It has been proven that the management's hard work has won the recognition and a high degree of understanding and support of our shareholders.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS

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

### Business Review and Development

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

- **Tele-media Business**

**Steady increase in the influence and number of users of VODone**

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

**The website is well recognized by the government and netizens**

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

**"Line 0 of Metro" mobile radio station**

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

**Linfo**

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

**V1 Group Buying**

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

**Lottery Weibo achieved the transformation from availability to utility**

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

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

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

- **Lottery Related Business**

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

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

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

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

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

**Diversified channels for lottery sales**

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

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

- **Mobile Games Business**

**CMGE's substantial growth in 2011**

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

**Enriched product contents**

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

**Further consolidation of advantages in channels**

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

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

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

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

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

## 2012 Prospect

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

## FINANCIAL REVIEW

### Business segments

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

### Tele-media Business

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

**Lottery Related Business**

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

**Mobile Games Business**

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

**Costs**

The increase in sales and marketing expenses of the year was mainly due to the launch of a series of advertisements for our new website weibo business and for the promotion of our own brands. The directors of the Company (the "Directors") believe that the launch of such advertisements will not only effectively strengthen and consolidate the Company's position in relevant markets, but also provide more new opportunities for business development of the Group. However, the Company will continue to implement its consistent policy of strict control of expenses while considering the need for business and marketing, in order to achieve maximum efficiency with minimum cost.

**Net Profit**

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

**Liquidity and Financial Resources**

As at 31 December 2011, the Group had HK$387,836,000 cash and cash equivalents (31 December 2010: HK$399,282,000).Working capital was HK$1,226,936,000 as compared with the working capital of HK$680,279,000 at the end of last year. The Group did not have any bank borrowings as at 31 December 2011 and 31 December 2010. Since the Group generates most of the revenue and incurs most of the costs in Renminbi, there was no material foreign exchange risk. As at 31 December 2011, the Group's current ratio was 5.6 (31 December 2010: 2.3). Taking into account the financial resources available, the Directors are of the view that the Group will have sufficient working capital for its present requirement.

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

**Charges and Contingent Liabilities**

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

**Capital Structure**

As at 31 December 2011, the total assets of the Group were HK$2,973,608,000 (2010: HK$2,363,247,000). Issued number of shares increased from 2,398,864,996 shares (31 December 2010) to 2,711,584,784 shares (31 December 2011), which was mainly due to the issuance of new shares as a result of assets acquisition and exercise of share options by employees. The Group's capital structure, as well as cash inflow, is therefore very healthy. The Group controlled carefully the foreign exchange risk exposure. Exchange gain earned in the year 2011 was HK$4,838,000 (2010: gain of HK$2,619,000).

On 29 March 2011, the Company entered into a subscription agreement with China Life Franklin Asset Management for the subscription of 80,000,000 new shares and subscription agreement with Evenstar and Geminis for the subscription of a total of 10,000,000 new shares of the Company, each at the subscription price of HK$2.26 per subscription share. The gross proceeds from the subscription amounts to HK$203.4 million. The Directors believe that the subscription can provide an opportunity to broaden the shareholder base and strengthen the capital base and financial position of the Company for the Group's future business developments.

## EMPLOYEES REMUNERATION AND BENEFITS

As at 31 December 2011, the Group had a total of 607 employees in the PRC (Beijing and Guangdong) and Hong Kong. They include the management and the employees in administration, production and sales personnel. The Group regularly reviewed its professional team members and will expand its management team whenever necessary.

The Group remunerates its directors and staff primarily based on their contribution, responsibilities, qualification and experience. The Group has implemented staff stock option plans. The Group has granted options to the Directors and other employees to encourage them towards enhancing the value of the Group and promote the long-term growth of the Group.

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

## DIVIDENDS AND BONUS ISSUE

A final dividend of HK0.8 cent per share (2010: HK1.38 cents per share) for the year ended 31 December 2011 was proposed pursuant to a resolution passed by the Board on 7 March 2012 to the shareholders whose names appear on the register of members of the Company on Tuesday, 8 May 2012, and shall be subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. These consolidated financial statements do not reflect this dividend declared.

The Directors also propose a bonus issue of shares on the basis of 1 new ordinary share for every 10 ordinary shares to the shareholders whose names appear on the register of members of the Company on Tuesday, 8 May 2012. The new shares will be issued as fully paid and will rank pari passu with the existing issued shares except they will not carry any right to receive the final dividend of HK0.8 cent in respect of the year ended 31 December 2011. The bonus issue of shares is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting and to the listing of and permission to deal in the new shares being granted by the Stock Exchange in due course.

A circular containing details of the bonus issue proposal will be dispatched to the shareholders of the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 25 April 2012 to Friday, 27 April 2012 both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, 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, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 24 April 2012.

The proposed final dividend and bonus issue are subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. For determining the entitlement to the proposed final dividend and bonus issue, the register of members will be closed from Friday, 4 May 2012 to Tuesday, 8 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and bonus issue, 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, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 3 May 2012.

## CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2011, the Company had complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 of the Code, 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 announcement, 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.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules during the year ended 31 December 2011. Having made specific enquiry to all the Directors, each of them has confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

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

During the year ended 31 December 2011, the Company purchased 12,206,000 shares of the Company for a total consideration of HK$13,686,200.

## PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the Company's website (http://ir.vodone.com) and the Hong Kong Exchanges and Clearing Limited's website (http://www.hkexnews.hk). The 2011 annual report will be dispatched to the shareholders of the Company and will be made available on the aforesaid websites in due course.

## APPRECIATION

I would like to extend on behalf of the Board its sincere gratitude 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<br>
**VODone Limited**<br>
**ZHANG Lijun**<br>
*Chairman*

Hong Kong, 7 March 2012

As at the date of this announcement, the Directors are:

*Executive Directors:*<br>
Dr. ZHANG Lijun *(Chairman)*<br>
Ms. WANG Chun<br>
Mr. SIN Hendrick

*Independent Non-executive Directors:*<br>
Dr. LOKE Yu (alias LOKE Hoi Lam)<br>
Mr. WANG Zhichen<br>
Mr. WANG Linan