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VODONE LIMITED

第一視頻集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 82)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board of directors (the “Board”) of VODone Limited (the “Company” or “VODone”) announces that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2013 are as follows:

HIGHLIGHTS OF THE INTERIM RESULTS FOR THE FIRST HALF 2013

- Turnover for the period amounted to HK\$215,409,000
- Bank and cash balance of HK\$315,034,000, and no bank borrowings
- Net cash inflow from operating activities of HK\$29,471,000
- Total assets exceeded HK\$3,064,506,000

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Six months ended 30 June	
		2013	2012
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	4	215,409	251,781
Cost of revenue		<u>(115,480)</u>	<u>(83,755)</u>
Gross profit		99,929	168,026
Other gains and losses	5	6,100	17,119
Selling and marketing expenses		(101,989)	(13,300)
Administrative expenses		(98,723)	(67,129)
Finance cost		(1,560)	(468)
Share of profit/(loss) of associates		<u>60</u>	<u>(2,756)</u>
(Loss)/profit before income tax	6	(96,183)	101,492
Income tax expense	7	<u>(7,008)</u>	<u>(13,552)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(103,191)</u>	<u>87,940</u>
Other comprehensive income:			
Change in fair value of available-for-sale financial assets		30,290	–
Exchange differences arising on translation		<u>30,020</u>	<u>(22,835)</u>
Other comprehensive income for the period		<u>60,310</u>	<u>(22,835)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>(42,881)</u>	<u>65,105</u>
(Loss)/profit attributable to:			
Owners of the Company		(93,333)	75,293
Non-controlling interests		<u>(9,858)</u>	<u>12,647</u>
		<u>(103,191)</u>	<u>87,940</u>
Total comprehensive income attributable to:			
Owners of the Company		(32,849)	52,458
Non-controlling interests		<u>(10,032)</u>	<u>12,647</u>
		<u>(42,881)</u>	<u>65,105</u>
(Loss)/earnings per share			
– Basic (HK Cents)	8	<u>(2.98)</u>	<u>2.73</u>
– Diluted (HK Cents)	8	<u>(2.98)</u>	<u>2.73</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
	Notes		
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	9	43,019	44,951
Interests in associates	10	42,486	41,411
Goodwill	11	883,893	869,224
Intangible assets		910,286	910,326
Deposits for acquisition of property, plant and equipment		1,478	1,348
		1,881,162	1,867,260
CURRENT ASSETS			
Trade receivables	12	82,835	94,010
Other receivables, deposits and prepayments		496,469	470,197
Inventories	13	4,849	2,855
Other financial assets	14	79,738	49,448
Amounts due from associates	20(d)	203,713	247,393
Amounts due from related companies	20(c)	706	706
Bank balances and cash		315,034	364,503
		1,183,344	1,229,112
CURRENT LIABILITIES			
Trade payables	15	22,082	4,478
Deposits received, other payables and accruals		38,431	38,949
Other financial liabilities		97,032	95,472
Amount due to a related company		53	53
Consideration shares		11,880	38,115
Tax payable		4,579	19,479
		174,057	196,546
NET CURRENT ASSETS		1,009,287	1,032,566
TOTAL ASSETS LESS CURRENT LIABILITIES		2,890,449	2,899,826
NON-CURRENT LIABILITIES			
Deferred tax liabilities		8,575	9,442
NET ASSETS		2,881,874	2,890,384

		As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
EQUITY			
Share capital	<i>16</i>	31,280	30,981
Reserves		2,685,113	2,683,890
Equity attributable to owners of the Company		2,716,393	2,714,871
Non-controlling interests		165,481	175,513
TOTAL EQUITY		2,881,874	2,890,384

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Share-based compensation reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Non-controlling interests HK\$'000	
At 1 January 2012 (audited)	26,141	1,163,238	484,473	34,587	–	201,031	682,301	103,701	2,695,472
Profit or loss	–	–	–	–	–	–	75,293	12,647	87,940
Other comprehensive income	–	–	–	–	–	(22,835)	–	–	(22,835)
Total comprehensive income for the period	–	–	–	–	–	(22,835)	75,293	12,647	65,105
Exercise of share options	62	7,988	–	(1,506)	–	–	–	–	6,544
Placing of new shares	1,600	143,319	–	–	–	–	–	–	144,919
Bonus issue	2,718	–	–	–	–	–	(2,718)	–	–
Transfer of consideration share for business acquisitions in prior year	460	51,127	–	–	–	–	–	–	51,587
Expenses related to shares issued in prior year	–	(1,000)	–	–	–	–	–	–	(1,000)
Recognition of share-based payment expense	–	–	–	7,920	–	–	–	–	7,920
Dividends declared	–	–	–	–	–	–	(21,743)	–	(21,743)
At 30 June 2012 (unaudited)	<u>30,981</u>	<u>1,364,672</u>	<u>484,473</u>	<u>41,001</u>	<u>–</u>	<u>178,196</u>	<u>733,133</u>	<u>116,348</u>	<u>2,948,804</u>
At 1 January 2013 (audited)	30,981	1,364,058	462,432	44,815	–	215,365	597,220	175,513	2,890,384
Profit or loss	–	–	–	–	–	–	(93,333)	(9,858)	(103,191)
Other comprehensive income	–	–	–	–	30,290	30,194	–	(174)	60,310
Total comprehensive income for the period	–	–	–	–	30,290	30,194	(93,333)	(10,032)	(42,881)
Transfer of consideration share for business acquisitions in prior year	299	21,831	–	–	–	–	–	–	22,130
Recognition of share-based payment expense	–	–	–	12,241	–	–	–	–	12,241
At 30 June 2013 (unaudited)	<u>31,280</u>	<u>1,385,889</u>	<u>462,432</u>	<u>57,056</u>	<u>30,290</u>	<u>245,559</u>	<u>503,887</u>	<u>165,481</u>	<u>2,881,874</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	29,471	205,648
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(84,215)	(278,281)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>–</u>	<u>199,411</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(54,744)	126,778
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	5,275	(4,289)
CASH AND CASH EQUIVALENT AT BEGINNING OF PERIOD	<u>364,503</u>	<u>387,836</u>
CASH AND CASH EQUIVALENT AT END OF PERIOD	<u>315,034</u>	<u>510,325</u>

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

The condensed consolidated financial statements should be read in conjunction with the Group’s 2012 annual financial statements. The accounting policies of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2012.

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

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

In the current period, the Group has applied, for the first time, the new and revised standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA, which are effective for the Group’s financial year beginning on 1 January 2013.

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

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

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

3. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has three reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group’s reportable segments:

- Tele-media business – Provision of internet information services, including mini-video news portal and self-produced original news commentary programs and operation of online shopping platform.
- Lottery-related business – Provision of a lottery operation platform through the complementary support of lottery information, mobile phone lottery betting system, physical shops and the lottery weibo.
- Mobile games business – Development and provision of mobile games, as well as provision of mobile and internet value-added services, and also developing, designing and providing maintenance services of mobile communication products.

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

(a) Business segments

	Tele-media business		Lottery-related business		Mobile games business		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	20,666	93,271	47,548	17,636	147,195	140,874	215,409	251,781
Reportable segment profit/(loss)	(77,060)	57,419	11,930	3,736	(23,646)	43,120	(88,776)	104,275
Interest income	122	211	-	-	2,167	658	2,289	869
Interest expenses	-	-	-	-	1,560	468	1,560	468
Depreciation and amortisation	(17,312)	(11,212)	(13,039)	(12,263)	(10,555)	(13,037)	(40,906)	(36,512)
	As at	As at	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2013	2012	2013	2012	2013	2012	2013	2012
Reportable segment assets	1,268,819	1,348,658	803,188	762,758	850,612	839,610	2,922,619	2,951,026
Additions to non-current assets	1,039	361,387	-	136,390	32,417	47,675	33,456	545,452
Reportable segment liabilities	4,767	13,614	4,975	12,323	61,809	43,266	71,551	69,203

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

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
(Loss)/profit before income tax		
Reportable segment (loss)/profit	(88,776)	104,275
Other gains and losses	4,184	18,736
Share of profit/(loss) of associates	60	(2,756)
Unallocated corporate expenses	(11,651)	(18,763)
Consolidated (loss)/profit before income tax	(96,183)	101,492
	As at	As at
	30 June	31 December
	2013	2012
	HK\$'000	HK\$'000
Assets		
Reportable segment assets	2,922,619	2,951,026
Other financial assets	79,738	49,448
Interests in associates	42,486	41,411
Bank balances and cash	15,770	51,434
Unallocated corporate assets	3,893	3,053
Consolidated total assets	3,064,506	3,096,372

	As at 30 June 2013 HK\$'000	As at 31 December 2012 HK\$'000
Liabilities		
Reportable segment liabilities	71,551	69,203
Other payables and accruals	2,148	2,971
Other financial liabilities	97,032	95,472
Consideration shares	11,880	38,115
Unallocated corporate liabilities	21	227
Consolidated total liabilities	182,632	205,988

(c) Geographical information

During 2013 and 2012, over 90% of the Group's revenue is attributable to customers in the PRC and over 90% of the Group's total non-current assets are located in the PRC and the remaining non-current assets are located in Hong Kong.

(d) Major customers

As disclosed in note 20(a), the Group's associate is the only major customers with whom transactions have exceeded 10% of the Group's revenues. Revenues from the Group's associate amounted to approximately HK\$20,666,000 (2012: HK\$93,271,000) in the tele-media segment and amounted to approximately HK\$47,548,000 (2012: HK\$17,636,000) 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 services fees earned. An analysis of turnover and revenue is as follows:

	Six months ended 30 June 2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Revenue		
Tele-media business:		
– Advertising and service income	20,666	93,271
Lottery-related business:		
– Service and advertising income	47,548	17,636
Mobile games business:		
– Sales of mobile communication products, mobiles games and provision of maintenance service	147,195	140,874
	215,409	251,781

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fair value gain on consideration shares	4,104	17,867
Interest income	2,289	869
Net foreign exchange losses	(10)	(1,214)
Others	(283)	(403)
	<u>6,100</u>	<u>17,119</u>

6. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	5,567	10,389
Amortisation of intangible assets	35,351	26,123
Carrying amount of inventories sold	3,761	3,923
Auditor's remuneration	50	50
Staff costs (excluding directors' remuneration)		
Salaries and wages	49,816	29,157
Pension fund contributions	7,182	5,098
Share-based payments	6,909	6,287
	<u>63,907</u>	<u>40,542</u>

7. INCOME TAX EXPENSE

Taxation in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – the PRC		
– provision for the period	1,347	14,225
– withholding tax on distribution of retained profits of subsidiaries	6,287	–
Current tax – Hong Kong Profits Tax		
– provision for the period	290	142
Deferred taxation		
– attributable to the reversal of temporary differences	(916)	(815)
	<u>7,008</u>	<u>13,552</u>

The Hong Kong profits tax of OWX Hong Kong Limited is calculated at 16.5% (2012: 16.5%) on the estimated assessable profits for the period.

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

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

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

8. (LOSS)/EARNINGS PER SHARE

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK cents	HK cents
Basic (loss)/earnings per share	<u>(2.98)</u>	<u>2.73</u>
Diluted (loss)/earnings per share	<u>(2.98)</u>	<u>2.73</u>

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/profit for the period attributable to owners of the Company, used in the basic and diluted (loss)/earnings per share calculation	<u>(93,333)</u>	<u>75,293</u>

Number of shares

Weighted average number of ordinary shares for basic (loss)/earnings per share	3,127,963,195	2,754,436,710
Effect of dilution – share options	<u>–</u>	<u>690,585</u>
Weight average number of ordinary shares for basic (loss)/earnings per share, adjusted for the effect of dilution	<u>3,127,963,195</u>	<u>2,755,127,295</u>

No adjustment has been made to the (loss)/earnings per share presented for the six months ended 30 June 2013 as the share options outstanding at the period end had an anti-dilutive effect on the basic (loss)/earnings per share. Therefore the basic and diluted (loss)/earnings per share for the six months ended 30 June 2013 are the same.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$3,147,000 (2012: HK\$9,436,000).

10. INTERESTS IN ASSOCIATES

	As at 30 June 2013 (Unaudited) <i>HK\$'000</i>	As at 31 December 2012 (Audited) <i>HK\$'000</i>
Share of net liabilities	(18,683)	(18,743)
Goodwill	<u>61,169</u>	<u>60,154</u>
	<u>42,486</u>	<u>41,411</u>

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

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

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

	As at 30 June 2013 (Unaudited) <i>HK\$'000</i>	As at 31 December 2012 (Audited) <i>HK\$'000</i>
Total assets	157,638	214,054
Total liabilities	<u>(195,767)</u>	<u>(252,306)</u>
Net liabilities	<u>(38,129)</u>	<u>(38,252)</u>
Group's share of the associates' net liabilities	<u>(18,683)</u>	<u>(18,743)</u>
	Six months ended 30 June 2013 (Unaudited) <i>HK\$'000</i>	2012 (Unaudited) <i>HK\$'000</i>
Revenue	<u>62,369</u>	<u>100,430</u>
Profit/(loss) for the period	<u>122</u>	<u>(5,624)</u>
Group's share of the associates' profit/(loss) for the period	<u>60</u>	<u>(2,756)</u>

11. GOODWILL

HK\$'000

Cost:

At 1 January 2012	898,344
Exchange adjustments	5,960

At 31 December 2012	904,304
Exchange adjustments	15,261

At 30 June 2013	919,565
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Accumulated impairment losses:

At 1 January 2012	—
Impairment losses recognised in the year	35,080

At 31 December 2012	35,080
Exchange adjustments	592

At 30 June 2013	35,672
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Carrying amount:

At 30 June 2013 (unaudited)	883,893
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At 31 December 2012 (audited)	869,224
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Goodwill is allocated to the Group's cash generating units ("CGUs") identified to country of operation and business segment. The carrying amounts as at 30 June 2013 were related to the Group's tele-media business and mobile games business in the PRC.

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

12. TRADE RECEIVABLES

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

	As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
Within 1 month	43,737	16,766
2 to 3 months	12,938	11,796
4 to 6 months	188	8,853
7 to 12 months	1,320	14,963
Over 1 year	24,652	41,632
	82,835	94,010

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

13. INVENTORIES

	As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
Raw materials	4,100	2,227
Work-in-progress	613	628
Finished goods	136	–
	<u>4,849</u>	<u>2,855</u>

14. OTHER FINANCIAL ASSETS

	As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
Available-for-sale financial assets:–		
Compensation arising from profit guarantee arrangement of		
– OWX Group (note (a))	58,118	20,364
– 3GUU Group (note (b))	21,620	29,084
	<u>79,738</u>	<u>49,448</u>

Notes:

- (a) Pursuant to the profit guarantee arrangement with the vendors, the Company is entitled to recover the related consideration shares at no cost as the actual result of OWX Group for the year ended 31 December 2012 is less than the relevant profit target. The Company has decided not to recall the consideration shares and asked the vendors to dispose of the related shares to settle the compensation in cash. Further, as the value of the surrendered consideration shares is insufficient to cover shortfall in the profit guarantee arrangement, the Vendors have agreed to dispose part of their interests in China Mobile Games and Entertainment Group Limited, a subsidiary of the Company, and pay the Company the sale proceeds to make up the shortfall in actual profit of OWX Group. Compensation is determined on the agreed number of shares to be disposed of at their fair value at the end of reporting period. The compensation is classified as available-for-sale financial asset in the consolidated statement of financial position. It is carried at fair value with changes in fair value recognised in other comprehensive income.
- (b) Pursuant to the profit guarantee arrangement with the vendors, the Company is entitled to recover the related consideration shares at no cost as the actual result of 3GUU Group for the year ended 31 December 2012 is less than the relevant profit target. The Company has decided not to recall the consideration shares and asked the vendors to dispose of the related shares to settle the compensation in cash. Compensation is determined on the agreed number of shares to be disposed of at their fair value at the end of reporting period. The compensation is classified as available-for-sale financial asset in the consolidated statement of financial position. It is carried at fair value with changes in fair value recognised in other comprehensive income.

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

15. TRADE PAYABLES

Generally, the credit term received from suppliers of the Group is 30 days. An aging analysis of the trade payables as at the end of reporting date, based on invoice date is as follows:

	As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
Current or less than 1 month	18,647	3,429
1 to 3 months	3,083	799
More than 3 months but less than 12 months	352	250
	<u>22,082</u>	<u>4,478</u>

16. SHARE CAPITAL

	As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
<i>Authorised:</i>		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
3,127,963,195 (31 December 2012: 3,098,057,138) ordinary shares of HK\$0.01 each	<u>31,280</u>	<u>30,981</u>

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

	Number of ordinary shares	Share capital HK\$'000
At 1 January 2012	2,711,584,784	27,116
Exercise of shares options	6,200,000	62
Placing of new shares	160,000,000	1,600
Bonus issue	271,778,478	2,718
	<u>3,149,563,262</u>	<u>31,496</u>
<i>Less: consideration shares which are subject to recall</i>	<u>(51,506,124)</u>	<u>(515)</u>
At 31 December 2012 (audited)	<u>3,098,057,138</u>	<u>30,981</u>
At 1 January 2013	3,149,563,262	31,496
<i>Less: consideration shares which are subject to recall</i>	<u>(21,600,067)</u>	<u>(216)</u>
At 30 June 2013 (unaudited)	<u>3,127,963,195</u>	<u>31,280</u>

17. OPERATING LEASE ARRANGEMENTS

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases	9,079	8,434

At 30 June 2013, the Group had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
Within one year	17,796	14,378
In the second to fifth years, inclusive	20,327	25,497
	38,123	39,875

18. COMMITMENTS

	As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
Contracted, but not provided for:		
– Acquisition of property, plant and equipment and intangible assets	–	2,756
– Acquisition of subsidiaries	132,867	–

19. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

On 27 April 2012, the shareholders of the Company approved a new share option scheme (the “VODone Scheme”) and adopted it on 30 April 2012, and terminated the share option scheme adopted on 7 June 2002 (the “Old VODone Scheme”). Upon the termination of the Old VODone Scheme, no further share options will be offered under the Old VODone Scheme. However, the share options granted prior to such termination shall continue to be valid and exercisable in accordance with the Old VODone Scheme.

Under the Old VODone Scheme and VODone Scheme, the directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The exercise price for the share options shall be determined in accordance with the Old VODone Scheme and VODone Scheme and the relevant provisions of the Listing Rules.

During the six months ended 30 June 2013, no share options was exercised by the participants.

20. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Service fee income earned from the associate, TMD1	68,214	110,907
Management fee charged by TMD1	22,510	–

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term benefits	5,246	7,800
Share-based payments expense	–	1,633
	5,246	9,433

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

21. EVENT AFTER THE REPORTING PERIOD

On 9 July 2013, the Group acquired the entire equity interest in Victor Choice Investments Limited, a company incorporated in the British Virgin Islands with limited liability which indirectly holds a PRC subsidiary which is principally engaged in technical development, consultancy business and supporting services in the PRC. The total consideration is RMB150,000,000 which will be settled by cash of RMB85,000,000 and the issue of 137,130,000 shares of the Company. RMB45,000,000 cash consideration was paid in June 2013.

Initial accounting for the business acquisition is incomplete as at the reporting date because the valuation of business acquired is under progress.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the audit committee of the Company and approved and authorised for issue by the Board on 29 August 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

Turnover of the Group for the six months ended 30 June 2013 amounted to HK\$215,409,000, representing a decrease of around 14% as compared with the corresponding period last year. Loss attributable to the owners of the Company was HK\$93,333,000. (2012: Profit of HK\$75,293,000).

BUSINESS REVIEW AND DEVELOPMENT

- ***Tele-media business***

VODone Portal (www.v1.cn)

VODone Portal, the first mini-video news portal website in the Mainland, on 4 February 2013, a day marking the beginning of spring of the chinese calendar, launched VODone “cloud news” platform. The integrated media platform combines videos, news, mobile terminals, UGC (User Generated Content) and SNS (Social Networking Services) into a single platform. With core contents that are based on news commentaries (self-produced and self-generated news programmes), together with a wide variety of news contents stretching from news, military, social affairs, financial news, entertainment, sports, automobiles to fashion-related horizons, the platform strives to offer users accurate, truthful, comprehensive and insightful video news amid vast volume of news, in an effort to convey positive messages across the communities and give an in-depth look into the inside stories behind the news.

Trend of development of mini-video news

The Mainland has an internet user population of 564 million and video applications are the most frequent applications used by internet users. Movies and TV series were the most popular contents among internet users in 2011-2012. However, their top ranking popularity has been replaced by news and information video contents since 2012-2013. In this light, contents of internet videos have gradually extended from entertainment to news, work, study and life-related aspects. Nevertheless, most of the existing video websites remain focused on long-length videos of entertainment, films and TV and general category, and the professional news video websites in the Mainland are now mainly governmental websites. Therefore, in order to meet the demand, VODone Portal has been endeavouring to set up for internet users a platform that provides the latest, fastest, in-depth and multi-angle news videos.

Function as mainstream media for public opinion and mouthpiece

As a new media in which the state has shareholding interests, VODone Portal has been playing the role of a mainstream internet media platform for people to express their opinions and performing its communicative function on significant events. These efforts were marked by the prompt actions taken by VODone Portal to send a team of volunteers to the disaster zone and make devoted efforts in keeping the public abreast of the post-disaster relief in the zone by producing designated reports in relation thereto immediately after the earthquake occurred in Ya'an on 20 April 2013. Besides, Dr. Zhang Lijun, the Chairman of the Board of VODone, took the lead to co-ordinate efforts with the leaders of 30 core internet media such as Xinhuanet.com (新華網) and people.com.cn (人民網) to cheer up the victims of Ya'an. We invited experts from the Ministry of Communications, the Ministry of Health, public welfare organizations and other sectors of the society to host a 72 consecutive hours' live broadcast of the "Love and Care Campaign in Joint Forces from the Mainland's Internet Video Websites". In additions, as a result of VODone Portal's report of the misfortune of Mr. Huang Mingzhong of Lushan County (蘆山縣), who suffers from uremia disease and whose mother died in the complete collapse of their house as a result of the earthquake, he was given free treatment at kidney disease hospital in Shandong.

A website with widespread recognition from internet users and the government

VODone Portal has been persistent in taking a justifiable stance on public opinion, promoting the core values of our country across the communities, bringing positive messages, and reporting news in a rational, truthful, fair and impartial manner. Thanks to its untiring efforts, VODone Portal has not only gained positive responses from internet users but also received much recognition from the government, as reflected from the winning of the "Best Online Reporting Award (「最佳網路報導獎」) – Advanced Collective Award (「先進集體獎」)" by VODone Portal, and the grant of the "Advanced Individual Award" (「先進個人獎」) to both Ms. Wang Meng and Mr. Yang Zhenhua (the deputy chief editors of VODone Portal) at the 2013 Two-Session (The National People's Congress of the People's Republic of China and Chinese People's Political Consultative Conference) News Reporting. In recognition of VODone Portal's unwavering dedication to constant updates and reports of charity activities since its establishment, VODone Portal was honoured the "2012 Best Charity Mass Media Award" (「2012年度最佳公益傳播獎」) in January 2013. Furthermore, VODone Portal's reporting of the "Extending the Reach of Internet Media into Schools – Visits to Uniquely-featured Schools around Us" campaign received acclaim from the Beijing Municipal Commission of Education and as a result a cash award was granted by the Commission.

Direction of development

Following a series of mergers and restructurings in the internet video sector in the Mainland in 2013, the road map for development of the industry has become more apparent. By building on its distinct edges and persistent exploring into mini-video news, VODone Portal will remain committed to producing self-generated commentary programmes on hot news. In 2013, we launched “Let Me Say”(「我說兩句」) – a commentary and discussion programme on hot issues from different perspectives, “Talk between Adults and Children”(「大兵小將」) – a first-of-its-kind informative talk show of news in the Mainland co-hosted by adults and children, and “World of Soldiers”(「兵論天下」) – the first internet programmes on military affairs. Also, building on the main channels stretching from news, military, social affairs, financial, entertainment, sports, automobiles to fashion-related spectrums, and compounded by extensive coverage reaching different provinces, continents and various parts of the world as well as hot news that attract intense discussion from internet users, VODone has blossomed into a global video portal. In addition, in light of the rapid development of mobile applications, VODone will roll out new mobile apps and products featuring celebrities in the second half of 2013 at all-out efforts.

Incentive scheme for the Group’s employees

The logo of a company is a visual symbol of its corporate culture and an emblem of its spirit and soul. In 2013, Dr. Zhang Lijun (the Chairman of the Board of VODone) awarded badges in five different types, namely diamond platinum, gold, silver, copper and multi-colour to VODone’s employees according to their respective term of service and position in the Company as well as their individual merit and contribution to the Company. All of these badges are made of genuine materials such as platinum diamond, gold and silver, which are intended to symbolize VODone’s core values of being a genuine enterprise and to remind VODone’s employees of the very essence of honesty and hard work, thus underscoring the Group’s business philosophy of “genuineness carries values”.

V1pin maternal-infant products on-line store (www.v1pin.com)

In recent years, China has entered into the fourth wave of baby boom, with the number of new born babies keeping at about 17 million every year. Based on the cumulative number of newborn babies, currently, the total number of infants and children aged between 0 to 6 in the country amounts to about 110 million, and the peak of birth rate will persist. Baby boom will definitely fuel the continued growth in consumption of baby products. According to the estimation of the authorities of the Mother-Infant-Child Industry Association (孕嬰童用品行業協會), consumption of baby goods currently accounts for 30% of total household expenditure. In 2012, the market size of the entire baby market reached a value of RMB1,000 billion. China has become the second largest consuming country of baby products, only second to the United States. Under the robust growth of the baby product industry, V1pin will soon be thriving.

V1pin has an elite team of talents from the E-commerce and relevant fields, and adheres to the core values of integrity, dedication and innovation. With an outstanding team, V1pin has established a sophisticated and stable shopping platform dedicated to maternal-infant products. Our professional operating team endeavours to offer customers with a wide range of imported maternal-infant products with the highest quality assurance from different corners around the world.

Platform development

In the first half of 2013, apart from completing its front-end development and backstage support setup, V1pin received the accredited website qualifications issued by China Business Credit Platform. V1pin's products can be classified into five main categories, namely baby goods, clothes, toys, baby cars and sleeping essentials and parental goods compiling more than 40 top-notch international brands, including ZOLI, BEABA and OKBABY. V1pin plans to extend the five existing product categories to infant food and dairy products when relevant qualifications and certificates are obtained in the second half of 2013. We regard imported dairy products as another key product in order to meet the growing demand from customers. With respect to brand building, we are going to introduce more top-tier well-known brands. We expect that our platform will be expanded into 150 maternal-child brands and 3,000 Stock Keeping Units (SKU) at the end of 2013. Parents can choose the most suitable and comfortable products for their babies.

In additions, V1pin has successfully completed the development of its mobile application for iPhone, which has been applied for introduction into the App Store market of Apple. In the second half of the year, V1pin will develop applications for Android, iPad and WEBAPP platforms, so as to cater for the needs of different customers and fully utilize every platform.

System establishment

1. Setting up of Warehouse Management System

In the first half of 2013, we developed the Warehouse Management System (WMS) which enabled us to put in place efficient management of commodity purchase, sales and storage.

For warehousing and logistics setup, the area of warehouses will be extended to above 2,000 square meters in regard to business growth.

2. Setting up of Customer Service System

V1pin is dedicated to providing super-quality customer services that it offers round-the-clock on-line and telephone hotline support, with comprehensive focus on enquiries, sales support and after-sales services, together with 7-day unconditional guarantee on product return and exchange and 15-day exchange services, which would give its customers peace of mind and ensure that they would have a enjoyable and carefree shopping time.

3. Studio and photographers

Through investment in setting up a studio and building up a team of professional photographers, V1pin allows customers to enjoy amazing visual experience while they are shopping and at the same time satisfying their needs because they can then easily and fully understand the details of products.

Marketing

With respect to marketing strategy, V1pin focuses on a group of customers who “care about baby health and pursue for quality products.” On one hand, apart from using traditional marketing channels adopted by E-shops, such as Search Engine Marketing (SEM), Cost Per Sale (CPS) and media advertisings, V1pin will step up in-depth marketing on the high-end ladies segment among users of the Group by taking advantage of its user resources. On the other hand, V1pin builds up strategic cooperation with maternal-infant services providers such as early education institutions, first class confinement clubs, maternal hospitals and healthcare centers, with a view to offering tailor-made packages suitable for both mothers and infants and providing high-quality commodities and services to customers. At the same time, V1pin has entered into strategic cooperation agreements with a number of training institutions, such as Babycare (東方愛嬰), Gym-Baby (運動寶貝), Rompn’roll (悅寶園) to collaborate in launching promotion campaigns so as to enhance its reputation.

In additions, V1pin intends to launch video shopping service, which showcases every detail, feature, instruction etc. of a product in the form of live video and recorded broadcast. We would also invite baby-care experts and celebrity mothers to recommend products on a live basis, so that V1pin can reinforce customers’ understanding of the products offered by it and win customers’ trust and confidence in its goods. The other feature under planning is the replay function, which allow users to watch any missed live programmes again through V1pin portal or view selected videos on the portal to learn the features of various products.

In the future, V1pin will strive to become the largest platform of quality imported baby products in China. With an advanced platform, professional technology, competent operation capabilities, superb quality and total-satisfaction after-sales services, V1pin will offer more knowledge on baby health and safety to mothers and is set to become a maternal-infant platform that is highly-pursued by mothers and parents.

- ***Lottery-related business***

Zhongguozucaiwang (中國足彩網) (www.zgzcw.com) and Diyicai (第一彩) (www.diyicai.com)

Continuous optimization of websites to enhance users' experience

In the first half of 2013, two high frequent lottery games, namely “Kuai 3”(「快3」) and “Kuaile Shifen”(「快樂十分」), were added to the websites while football lottery had been put on more games such as “Gross Pool All Up”(「混合過關」) and “Handicap Home Away Draw”(「讓球勝平負」)(讓球主客和), which enriched the categories of lottery games. In order to boost users' degree of activeness and loyalty to our websites, we launched a membership rewards and ranking scheme in which users are provided with suitable lottery information by their characteristics. The scheme also gives detailed guidance and demonstration of the websites with safe and fair information, which greatly enhances users' interests in our services and offers users a convenient, fast and safe betting experience.

Meanwhile, the Group achieved a breakthrough development in the enhancement of the websites. Zhongguozucaiwang has recently established pages for all lottery types, modulated Content Management System (CMS) and added functions like on-site search engine and page headlines. In addition, renovation and support for Search Engine Optimization (SEO) are adopted so that key words can be used in the website to achieve continuous growth of page viewing volume, and the average daily page views (PV) and unique views (UV) (number of visitors calculated by I.P) can thus be multiplied.

Brand development

In April 2013, Zhongguozucaiwang became the main sponsor of “Liaoning Whowin F.C. (Liaoning Whowin)” and supported the Liaoning football team for their participation in the Chinese Super League, with Liaoning Whowin carrying out in return a comprehensive series of cooperative arrangements, such as display of advertisements on the team’s jersey, the LED in the stadium and the goal 3D carpets during the 2013 soccer season. In the wake of the outstanding performance of Liaoning Whowin in the Chinese Super League and numerous live coverage by CCTV, the number of users, brand awareness and reputation of Zhongguozucaiwang and Lottery 365 mobile application had surged. By disseminating the latest information and relevant news of the website through Weibo and WeChat, more than ten thousands of effective fans had been accumulated in this half year and there were more than 200,000 articles in relation to the information of the website.

Promotions

The Company has launched various promotional campaigns in accordance with market plan and lottery seasonality and reviews these campaigns on a continued basis, in an effort to attract more new users and turn them into active users and enhance lottery sales on the website. Promotions targeting at new users include “Get \$3 Upon Registration” (「註冊送3元」), “Recharge \$20 Get \$20 Free” (「充值20元加送20元」), “First Charge Zero on Unsuccessful Betting” (「首次不中獎免單」). In addition, during the period of “Lottery Popular Date” (「競彩普及日」), the Company rolled out “Extra Bonus on Winning 2 Games in One Lottery” programme (「競彩2串1中獎加獎」), thereby increasing lottery sales substantially.

Business cooperation

By collaborating with different websites and platforms, the Company has fully expanded its new customer base into different types. Through joint efforts with websites such as PPTV (聚力), baihe.com (百合網), sumpay.cn (商盟統統付), wo1m.com (我要買), iQIYI.COM (愛奇藝), ganji.com (趕集網), baidu.com (百度), alipay.com (支付寶), fengyunzhibo.com (風雲直播), aoyou (遨遊) and chinapay.com (愛農驛站), the Company has recorded new users of over 100,000, doubling the sales volume of the same period last year.

Lottery 365 (彩票365)

Rapid development

As the main product of mobile application under the lottery-related business of VODone, Lottery 365 firmly maintains its top ranking in respect of user-scale and sales volume of lottery in the industry. As of May 2013, its number of downloads by users had exceeded 10 millions, being one of the few lottery-related mobile applications in the industry with a download count over 10 millions.

Profit sharing and pre-installation cooperation

Pinpointing the development of mobile phone applications, Lottery 365 had established cooperation with parties such as Kingsoft Internet (金山網路), Gionee (金立手機), PPTV (聚力), 91 Netdragon (91網龍), UC Browser (UC瀏覽器) and Dixintong Telecom (迪信通) on profit sharing and pre-installation on mobile phones. Leveraging on the resource advantages in mobile network from the cooperating parties, Lottery 365 enhanced its presence in the mainstream mobile phone users in China, laying a solid foundation for the mobile lottery-related business of the Group.

Awards

In respect of our influence in the industry, Lottery 365 was the sole representative of mobile phone lottery industry to attend the exhibition of “Global Mobile Internet Conference” in 2013 and became a highlight in the conference. At the same time, attributed to the remarkable performance in the first half of the year, Lottery 365 received various honours, such as “Internet Top 10 Service Innovation Award in PRC” (「中國互聯網十大服務創新獎」) from Internet Society of China, China Telecom, Huawei and NetEase and the “Excellent Product Award”(「優秀作品獎」) in the National Mobile Application Innovation Competition.

Active expansion

Following our business development, we are also actively expanding the cooperation with sport lottery centers and welfare lottery centers. In the first half of 2013, we established cooperations and entered into relevant cooperation agreements with various centers, such as Anhui Sport Lottery Center, Chongqing Sport Lottery Center, the Jiangmen branch of Guangdong Sport Lottery Center and Inner Mongolia Welfare Lottery Center.

- ***Mobile games business***

CMGE's business review and outlook for the first half of 2013

VODone's subsidiary, China Mobile Games and Entertainment Group Limited ("CMGE"), has made an all-out effort to transition into the smartphone games business in terms of development, publishing and operations business segments since late 2012. CMGE has been further stepping up its efforts in both business segments in the first half of 2013. CMGE possesses strong mobile games developing capabilities. As of 30 June 2013, CMGE has over 600 employees of which 450 members were research & development staff, and our game portfolio contains over 500 single player games (such as "Home Aquarium" (小小水族箱), "Xiaoyu Kuaipao" (小魚快跑) and "Monkey? Monkey!" (猴子大作戰) and 50 mobile social games (such as "War Valley" (戰谷), "Kuaile poker card game series" (快樂棋牌系列) and "Xiang Mo Shen Hua" (降魔神話). CMGE has received significant mobile games awards and enterprise-wide accomplishment in China in 2013, including the "Golden Apple Best Game Award", the "Best Mobile Game Award", the "Top 10 most innovative mobile games in the GGS Global Game Innovation Competition", the "Social Game Excellence Award" etc.

Self-developed game business

In terms of the self-developed games business, CMGE plans to roll out 15 game products in 2013. During the first half year, CMGE has developed and promoted the "Kuaile Poker card game series", including "Kuaile Zha Jin Hua" (快樂炸金花), "Kuaile Dou Di Zhu" (快樂鬥地主), "Kuaile Niuniu" (快樂牛牛), "Kuaile Mahjong for two" (快樂二人麻將), and "Kuaile Mahjong-tuidaohu" (快樂麻將一推倒胡). In particular, "Kuaile Zha Jin Hua" (快樂炸金花), a game that rolled out for four months (launched in late February 2013), has reached almost RMB10 million in gross revenue in June, and was also awarded one of the industry's significant honour, the "Golden Apple Best Game Award".

"War Valley" (戰谷) is a self-developed social game that has begun its initial close beta testing on 8 April 2013 on 9game.cn (九遊) and d.cn (當樂) platforms respectively. On 17 July 2013, its Android version was launched on a number of key distribution channels such as 9game.cn (九遊), d.cn (當樂) platform, 360.cn (360遊戲中心), xiaomi.com (小米), 91.com (91助手), Baidu duoku.com (百度多酷), China Mobile's Mobile Market (移動MM商城). The number of registered users and sales volume on the first launch day fared better than expected. The "War Valley" (戰谷) game will be launched in iOS and Android versions with three languages globally in September. The global coverage will span across Asia, Europe and North America.

CMGE will also launch self-developed games, including "Immortal Wind" (仙風), "Dazzling Dance" (炫舞派) and "Che Che Bomb" (扯扯彈) in the second half of the year.

Publishing and operating business

We entered into the mobile game publishing and operating business towards the end of 2012. The business and development expertise accumulated over the past three quarters bode well for us. As of 30 June 2013, we published a total of 50 games, 35 games through partnerships and 15 games through exclusive licensing agreements. We also operate and distribute a variety of mobile games developed by third parties, including “Feng Yun Tian Xia”(風雲天下), “Wu Xia”(武俠), “Bi Wu Zhao Qin”(比武招親), “Shi Kong Hunter”(時空獵人) and “Zui Jiangshan”(醉江山) etc. In addition, we have launched a wide range of game products with exclusive rights, including “Dragon’s Summon”(龍之召喚), “The Blood Knights”(熱血騎士團), Long Zhan SanGuo (龍戰三國), “Qiang Ni Mei”(搶你妹), “Monster Island (怪獸島), “Huang Shang Ji Xiang”(皇上吉祥), “Perfect Girlfriend OL”(完美女友OL), “Lun Jian”(論劍) and “Koudai Yaoyao”(口袋妖妖) and others. Some of the games published and operated by CMGE are currently ranked in the top 10 in China in terms of total downloading in major apps stores and gaming platforms. Monthly revenue from the publishing and operating business (excluding revenue from self-developed games) has reached RMB10 million, and has been growing at a fast pace on a month-on-month basis. The majority of the games for which we obtained with exclusive rights during the first half of the year were launched in July and August.

CMGE Game Center business

CMGE developed a strong mobile game distribution platform – “CMGE Game Center” and conducted extensive promotion activities during the first half of the year. Meanwhile, CMGE has entered into strategic cooperation arrangements with a number of well-respected mobile phone brands in China, including Coolpad (酷派), K-touch (天宇), Eton (億通), Haier (海爾), Zopo (卓普) and Hedy (七喜).

Smartphones pre-installation business

CMGE anticipates that its games will be pre-installed on over 60 million handsets by throughout 2013. CMGE has become a highly valued partner for well-established apps stores and game platforms in China, and a wide array of games developed and operated by CMGE have made it to the top 10 ranking in terms of total download volume. In the first half of the year, CMGE prepared itself to cooperate with all three major mobile operators in order to be able to introduce a wide variety of games on their platforms in China. In the second half of the year, CMGE will start to work intensively on the marketing and promotion of its games in cooperation with the mobile operators.

Games bundles business

CMGE has collaborated with China Mobile's gaming platform to create a variety of single player mobile games bundles namely, "G+ Haoyouduo" (G+好又多) and "G+ Gamewang" (G+遊戲王). Revenue from game bundles during the first half of 2013 increased substantially from the same period of 2012. In particular, "G + Haoyouduo" maintained the number one ranking in terms of revenue from China Mobile's Platform for five months during the first half of 2013.

Mobile handset design business

In the first half of 2013, the sales of the smartphones in China continued to increase though at a moderate pace. In contrast, smartphone sales in other countries are booming especially in the Southeast Asia. At the start of 2013, our handset design team mapped out 3G smartphone product solutions that are targeted to cater to the needs of overseas markets, in an effort to tap new areas of growth. With a proven ability to bring new products to the market quickly, our solutions have been highly-pursued and well-received by those markets.

Outlook for 2013

In the first half of 2013, CMGE has been working hard to reach new horizons on various fronts, and its efforts on a number of new products and services are beginning to pay off. In the second half of 2013, we are confident and excited about entering an era of vibrant growth for self-developed game products as well as game publishing and operation business. We firmly believe that CMGE will continue to grow at a high pace in the mobile game market in 2013.

FINANCIAL REVIEW

Business segments

	Tele-media business		Lottery-related business		Mobile games business		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	20,666	93,271	47,548	17,636	147,195	140,874	215,409	251,781
Reportable segment profit/(loss)	(77,060)	57,419	11,930	3,736	(23,646)	43,120	(88,776)	104,275
Interest income	122	211	-	-	2,167	658	2,289	869
Interest expenses	-	-	-	-	1,560	468	1,560	468
Depreciation and amortisation	(17,312)	(11,212)	(13,039)	(12,263)	(10,555)	(13,037)	(40,906)	(36,512)

Tele-media business

The tele-media business contributed a turnover of HK\$20,666,000 to the Group for the six months ended 30 June 2013, representing a decrease of around 78% as compared with the corresponding period last year. Segment loss was HK\$77,060,000 for the period.

The unsatisfactory performance was mainly attributable to the Group's tele-media business was undergoing a strategic realignment process, as a result of which the relevant advertising and platform development costs increased during the period but the revenue has not yet reflected the great potential of the new launched platform.

Lottery-related business

For the six months ended 30 June 2013, the Group recorded a lottery-related income of HK\$47,548,000, representing an increase of around 170% as compared with the corresponding period last year. Profit of the segment increased around 220% to HK\$11,930,000 when compared with last year's corresponding period.

With online sales having now been formally recognized by the PRC government as a legal channel for lottery selling from 1 January 2013, and the promulgation of relevant policies and regulations on internet lottery business, the lottery-related business of the Group now resume the pattern of high growth in the first half of the year, and become the strategic development focus of the Group. During the period, the Group also launched various promotional campaigns in accordance with features of market planning and lottery seasonality and successfully attracted more new users and turn them into active users and enhance lottery sales on the website. With such trend of results, we are optimistic that the lottery-related business of the Group will have rapid and steady development in the long run.

Mobile games business

For the first half of 2013, revenue increased to HK\$147,195,000, representing an increase of around 5% as compared with the corresponding period in 2012. Segment loss was HK\$23,646,000.

The loss for the period was mainly attributable to the Group's mobile games business was still in the process of transitioning its business, thus it has only just begun to see the initial benefits of its transition to smartphone games. Also, it was due to the Group's increased spendings on distributing and promoting new launched mobile games during the period.

Liquidity and financial resources

As at 30 June 2013, the Group had HK\$315,034,000 cash and cash equivalents (31 December 2012: HK\$364,503,000). Working capital was HK\$1,009,287,000 as compared with the working capital of HK\$1,032,556,000 at the end of last year. The Group did not have any bank borrowings as at 30 June 2013 and 31 December 2012. Since the Group generates most of the revenue and incurs most of the costs in Renminbi, there was no material foreign exchange risk. As at 30 June 2013, the Group's current ratio was 6.7 (31 December 2012: 6.2). Taking into account the financial resources available, the directors of the Company are of the view that the Group will have sufficient working capital for its present requirement.

During the period, the Group recorded a net cash inflow from operating activities amounting to HK\$29,471,000 as compared with the corresponding period in 2012 recording a net cash inflow from operating activities amounting to HK\$205,648,000.

Charges and contingent liabilities

As at 30 June 2013 and 31 December 2012, the Group had no charges on its assets and no material contingent liabilities.

Capital structure

As at 30 June 2013, the Group had total assets of HK\$3,064,506,000 (31 December 2012: HK\$3,096,372,000) which were financed by shareholders' funds of HK\$2,716,393,000 (31 December 2012: HK\$2,714,871,000), total liabilities of HK\$182,632,000 (31 December 2012: HK\$205,988,000) and minority interests of HK\$165,481,000 (31 December 2012: HK\$175,513,000).

EMPLOYEES REMUNERATION AND BENEFITS

As at 30 June 2013, the Group had a total of 934 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 reviews its professional team members and will expand its management team whenever necessary.

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

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

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2013.

CORPORATE GOVERNANCE PRACTICES

The Company had applied and complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules during the period for the six months ended 30 June 2013 except as noted hereunder.

According to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Up to the date of this report, the Board has not appointed an individual to the post of chief executive. The role of the chief executive has been performed collectively by all the executive directors, particularly by the chairman 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 consider appointing an individual as chief executive when it is appropriate.

According to the code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Two of the independent non-executive directors were unable to attend the annual general meeting of the Company held on 28 May 2013 due to various work commitments.

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

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 period for the six months ended 30 June 2013. Having made specific enquiry to all the directors of the Company, each of them has confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by directors.

REVIEW BY AUDIT COMMITTEE

The Group's unaudited interim financial results for the six months ended 30 June 2013 have been reviewed by the audit committee of the Company which comprises three independent non-executive directors of the Company.

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

Save as disclosed in note 16 to the financial statements, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website (<http://ir.vodone.com>) and Hong Kong Exchanges and Clearing Limited's website (<http://www.hkexnews.hk>). The 2013 interim report will be dispatched to the shareholders of the Company and will be made available on the aforesaid websites in due course.

By Order of the Board
VODone Limited
ZHANG Lijun
Chairman

Hong Kong, 29 August 2013

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

Executive directors:

Dr. ZHANG Lijun (*Chairman*)

Ms. WANG Chun

Independent non-executive directors:

Dr. LOKE Yu (alias LOKE Hoi Lam)

Mr. WANG Zhichen

Mr. WANG Linan