

Chairman's Statement



Zhang Lijun
Chairman

Dear Shareholders,

On behalf of the Board, and for the first time, I am very pleased to report to you the affairs of the Company and its development for the year.

Over the past year, the management continued its commitment of pursuing high-growth, sustainable prospective businesses for the benefit of the Company's shareholders. During the year, efforts were directed at developing the tele-media service business which led to the acquisition of Clear Concept and the ensuing capital contributions to commence operation of the tele-media services companies in the PRC. I am glad to report that with the US\$30 million funding from the Placing which took place in late December, a solid foundation is now built for the Company to engaging in the thriving tele-media market. Year 2006 represents a very significant and far-reaching change for the Company – the cornerstone for such change is the Group's partnership with VODONE.

EMPHASIS IN TELE-MEDIA SERVICE BUSINESS AND MARKET POTENTIAL

In September, with the mandate and unanimous support of its shareholders, the Company completed the acquisition of Clear Concept. Through such acquisition, the Company set up operational subsidiaries in the PRC engaging in the tele-media services business with VODONE as its strategic partner.

VODONE (Vodone Telemedia Company Limited), a PRC state-controlled company, has obtained a portfolio of licenses empowering it to engage in the production and broadcasting of media contents over broadband internet, fixed lines phones, mobile phones and other digital terminals. VODONE contracts its services through the 50-year exclusive contract ultimately to the tele-media service companies formed by the Company. Hence the group's subsidiaries will provide the essential technical, advertising, production and other support services for VODONE's tele-media business development and would enjoy their entitled benefits. At the outset the tele-media business include production and broadcasting of info-tainment contents over internet TV, mobile phones and fixed line telephone users and internet advertising (Web Union). Under the inevitable convergence of the media and telecom markets as witnessed in other parts of the world, the prospects of the tele-media market in China is enormous, promising and is just dawning.

Despite its short history, VODONE is already widely recognised by many industry observers in the PRC of its significance in the new tele-media arena. VODONE has obtained the necessary licences from a number of PRC authorities, in particular from "SARFT" and "MI" (refer to details in "Management Discussion and Analysis" Section). At present, it enjoys the status as one of the first in the PRC that can produce and broadcast media contents via the broadband internet, fixed line phones, mobile phones and other digital terminals for nation-wide distribution. These user groups and market potentials, the industry observers project, are massive:

- the Ministry of Information reported 431 million mobile phone users in China in July 2006
- Analysys International report the number of mobile TV users is expected to reach 10 million with a market size of RMB1.6 billion by end of 2006



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- Internet World Stats reported 130 million internet users of which the broadband users recently reached the 100 million mark
- eMarketer says online video ad spending is estimated to reach US\$410 million in 2006, an 82% jump from 2005, then US\$1.3 billion by 2008 and US\$2.9 billion by 2010

These markets will be actively pursued by VODONE as its core businesses.

Major players such as Microsoft MSN, China Netcom's CNCMAX and China Unicom NewSpace have teamed up with VODONE leveraging on the latter's legitimacy and broadcasting/distribution power. Microsoft MSN formed a joint portal for providing video service under advertising sharing arrangement with VODONE. One of MSN's goals is to enriching the lives of the white-collar users through such platform – this reconciles well with VODONE's mission to be a lead live broadcaster of quality information. CNCMAX recently launched the live broadcasting channels providing real-time programs in news, finance, entertainment, sports and lifestyle contents over its broadband and mobile phone networks under pay viewing arrangement with VODONE. China Unicom NewSpace collaborated with VODONE to engage in mobile broadcasting of contents and advertising. These co-operations, highlighting the dynamics of live video broadcasting, attempt to fill the Chinese consumers' insatiable needs for quality and timely info-tainment contents.

With respect to internet advertising, we are excited of commercialising the Web Union in December 2006. Free contents are broadcasted to Union members' websites free of charge. Video advertisements are inserted when free contents are broadcasted; thereby collecting the idled page views of the Union members and converting the page views into advertising revenues for the benefit of the VODONE/tele-media services companies and the Union members. In China, there are over 788,000 websites, most of which are too small to be able to deal directly with national advertisers. These websites are potential members of VODONE's union. Even a small proportion joining the union would generate an enormous amount of page views wanted by the advertisers. Video advertising, which is more sensational and attractive, has many distinct advantages over the conventional TV advertising or the banner type internet advertising. Such advertising can be broadcasted to broadband and mobile phone users on a more precise and targeted manner. We anticipate the space for video advertising will grow quickly and the collective advertising power of our Web Union will be enormous. We have reached over 16,000,000 page views already in a short few months and expect to congregate many times more page views from the Union members before the year's end. We are confident of the revenue potentials of this business model and will carefully execute our plan to ensure we can solidify our first-mover advantage appropriately.

In 2006, VODONE has been awarded a number of accreditations of merits. To name a few, Best Achievement of 2006 from SARFT, New Internet Pioneer 2006 from MII Internet Conference, Most Influential Media 2006 from China Commercial Association and Most Creative Business Model of 2006 from MII China Internet Conference. These awards, co-operation and other milestones achieved are true motivation for the group's staff to better develop the business and to serving our customers. I expect that there will be many more creative services, new co-operations and more importantly, eventually there will be new players engaging in this enormous China tele-media market. With this awareness, VODONE and its service companies will deploy their resources effectively, to keep maintaining its lead role, and to grow to meet the evolving needs of the Chinese consumers.



RESULTS OF “OLD” BUSINESS

As the acquisition and the commencement of the tele-media service business only occurred late in the year, the contribution of the tele-media services business to the group’s 2006 results was minimal. The significant loss for 2006 could be attributable to the less than satisfactory performance of the “old” Chinese medicine business and the effects of the group’s restructuring. Further discussions of the results for the year can be found under the section “Management Discussion and Analysis”. It is important to note here that, given the consistent poor performance of the Chinese medicine business over the last few years, the new Board of the Company is reviewing the possible options with regard to this business activity, including the possibility that the Chinese medicine business be wound down or disposed of in the near future. Given the prospect of the tele-media, management’s energy should be dedicated to the new tele-media business for enhancing the value for the shareholders.

To reflect the change in emphasis in the tele-media business and to build a lasting presence in the media industry, the Company has, with effect from 19 February 2007, changed its name to VODone Limited with the unanimous support of its Shareholders.

On behalf of the management, I would like to express my deepest gratitude for all stakeholders’ continuing support, patience and trust. For the staff, thank you for your dedication in the past years – and thank you for committing to make a difference in one of the most exciting industry in China. As our motto goes, we will together “broadcast the world to China and broadcast China to the world!”.

I passionately look forward to sharing the fruitful results with you all in the coming years!

Dr. Zhang Lijun
Chairman

20 April 2007