



# Directors' Report

The directors herein present their report together with the corporate governance report, management's discussion and analysis and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. During the year, the Company enters into the tele-media service business in the People's Republic of China (the "PRC") through the acquisition of Clear Concept International Limited ("Clear Concept") and the subsequent establishment of certain operational subsidiaries in the PRC. (refer to Subsidiaries section in note 18 to the financial statements). The Group continued its operations in the Chinese medicine business during the year.

## RESULTS AND DIVIDENDS

The Group's net loss attributable to shareholders for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 75.

## SEGMENT INFORMATION

The segment information of the Group for the year ended 31 December 2006 is set out in note 4 to the financial statements.

## FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 76. This summary is for information only and does not form part of the audited financial statements.

## FIXED ASSETS

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with explanations thereof, are set out in notes 26 and 33 respectively to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the company to offer new shares on a pro rata basis to existing shareholders.



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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 and page 32 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution in specie were nil (2005: nil). The Company's share premium account in the amount of HK\$547,052,000 (2005: HK\$109,885,000) may be distributed in the form of fully paid bonus shares.

## MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the respective percentages of the Group's purchases and sales attributable to major suppliers and customers are as follows:

(a)	Percentage of purchases attributable to:	
	* the largest supplier	34%
	* the five largest suppliers	79%
(b)	Percentage of sales attributable to:	
	* the largest customer	28%
	* the five largest customers	68%

The largest customer of the Group for the year was Vodone Datamedia Technology Co., Ltd. ("TMD1"). TMD1 is a sino-foreign joint-venture company and is 51% controlled by two state-owned enterprises. The Company indirectly owns a 24.99% interest in TMD1, with the balance of 24.01% indirectly held by Dr. Zhang Lijun, a substantial shareholder of the Company. Through contractual arrangements as disclosed in the Company's circular dated 18 August 2006, the Group provides tele-media support services to TMD1. Save as disclosed and as far as the directors are aware, neither the directors of the Company, their associates, nor shareholders, which to the knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest suppliers or customers.



# Directors' Report

## CHAIRMAN AND DIRECTORS

The chairman and the directors of the Company during the year and up to the date of this report were:

### Chairman

Dr. Zhang Lijun (appointed as Executive Director on 17 July 2006 and Chairman on 8 December 2006)

### Executive directors:

Fung Chi Kin (resigned on 17 February 2006)  
Guo Duen How, Tom (resigned on 15 March 2007)  
Ho Yuk Ming, Hugo (resigned on 17 February 2006)  
Kao Ying Lun (resigned on 8 December 2006 as Chairman and on 1 April 2007 as Executive Director)  
Li Mingke (resigned on 8 January 2006)  
Lu Xing (appointed on 1 December 2006)  
Yu Jianmeng (appointed on 21 February 2006)  
Wang Chun (appointed on 17 July 2006)  
Wu Fred Fong  
Zhang Zhiyuan, Nathan (resigned on 17 February 2006)  
Zhao Songyi (resigned on 8 January 2006)

### Independent non-executive directors:

Choy Tak Ho  
Loke Yu (alias Loke Hoi Lam)  
Loo Chung Keung, Steve (resigned on 17 February 2006)  
Tsui Chun Chung, Arthur

In accordance with the Company's practice and the proposed amendments to the bye-law, all the directors, including the independent non-executive directors are subject to retirement by rotation. Messrs. Choy Tak Ho and Loke Yu, will, in accordance with the bye-law, retire by rotation at the forthcoming annual general meeting of the Company. Mr. Choy and Dr. Loke, being eligible to sit for re-election, intend to offer themselves for re-election at the forthcoming annual general meeting.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

### Chairman

Dr. ZHANG Lijun, aged 44, joined the Group in July 2006 and was elected as the Chairman in December 2006. He is the Chairman of China Asia-Pacific Economic Cooperation ("APEC") Development Council. He is recently appointed as the Vice Chairman of China Social Workers Association, Vice Chairman of China Copyright Council and Vice Chairman of China Digital Telecommunications Committee. He was the former Chairman of Sino-Interest Worldwide Economic Group and Sino-Sky Telecom. Since 1999, nominated by the leader of PRC central government, Dr. Zhang has been a committee member of the APEC Business Advisory Council ("ABAC"), an organisation established by APEC to formalise private sector participation in providing advice and feedback to APEC leaders. Dr. Zhang co-chaired the Trade liberalization and facilitation working group of ABAC in 2004 and was the co-chairman of the Technology Working Group of the ABAC in 2005 when he also participated in APEC e-Commerce Work Force. Dr. Zhang was also the Economic Adviser of West Middle China and is the visiting professor of Nankai University. Dr. Zhang holds a Doctoral degree in World Economics from Nankai University, Tianjin. He is the spouse of Ms. Wang Chun.



## BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (continued)

### Executive directors

GUO Duen How, Tom, aged 62, joined the Group in 2000 and has over 25 years of extensive banking experience including corporate finance, project finance, international trade financing, credit, corporate management policy and administration. He held senior positions in a number of international banking institutions. Mr. Guo holds a Bachelor Degree of Commerce from Concordia University of Canada. Mr. Guo resigned for personal reasons effective on 15 March 2007.

KAO Ying Lun, aged 54, joined the Group in 2000 and has considerable experience in investment financial advisory fields. He sits on the board of certain private investment/listed companies. Mr. Kao holds an HBA Degree (Honours Business Administration Degree) from Richard Ivey School of Business, The University of Western Ontario and is a Chartered Accountant qualified in Canada. Mr. Kao resigned for personal reasons effective on 1 April 2007.

LU Xing, aged 40, joined the Group in December 2006 and is an experienced financial/banking executive having accumulated many years of broad industry exposure. He has worked for the China Construction Bank in Beijing for 19 years, progressing to the rank of Branch Vice-President. He was involved in financial management, project financing, risk assessment and control and has obtained a number of awards, including The Outstanding Achiever of the branch. Mr. Lu is a graduate from the certification program in Economics Information Management, The Central communist Party School. Mr. Lu is also the Chief Financial Officer of the Company.

WANG Chun, aged 42, joined the Group in July 2006 and has held senior positions in various PRC enterprises including those engaged in international trading, investment, internet operations and contents provision, telecommunications value added services and electronic commerce. She is also the Chief Executive Officer of Vodone Telemedia Co., Ltd. Ms. Wang holds a Master of Science degree in World Economics from Nankai University, Tianjin and a Bachelor's degree in Medicine from Tianjin Medical University. She is the spouse of Dr. Zhang Lijun.

WU Fred Fong, aged 60, joined the Group in 2000 and has considerable experience in corporate planning, corporate finance, investment and consulting with public companies in Canada and Hong Kong. Mr. Wu holds a Master of Business Administration Degree from Schulich School of Business, York University of Toronto, Canada. He is a Chartered Accountant qualified in Canada and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Wu is also the company secretary of the Company.

YU Jianmeng, aged 55, joined the Group in February 2006 and has over 30 years' experience in administration with government offices in China, economic studies, evaluation and analysis, investments and business development. He is currently the Chairman of Shanghai Yi Heng Hang Business Consulting Co., Ltd. Mr. Yu holds a Master Degree in Economics from East China Normal University, in joint course with University of Hawaii.



## Directors' Report

### BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (continued)

#### Independent non-executive directors

CHOY Tak Ho, aged 78, joined the Group in 2002 and has many years of experience in business administration. He is a director of Union International (H.K.) Company Limited. He is also a member of The National Committee of the Chinese People's Political Consultation Conference; the honorary life chairman of the Chinese General Chamber of Commerce Hong Kong and a member of The Selection Committee for the First Government of the Hong Kong Special Administrative Region.

Dr. LOKE Yu alias LOKE Hoi Lam, aged 58, joined the Group in 2005, and has over 30 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. Dr. Loke holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and Doctor of Business Administration Degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; The Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Institute of Chartered Secretaries & Administrators and a member of The Malaysian Institute of Accountants. Dr. Loke is the Chairman of MHL Consulting Limited and Habamas Ltd.. He currently serves as an independent non-executive Director of a number of companies listed on the Stock Exchange of Hong Kong.

TSUI Chun Chung, Arthur, aged 52, has been an independent non-executive director of the Group since 4 June 2001. Mr. Tsui has over 25 years of experience in auditing, banking, accounting and corporate finance. He has held senior positions in multi-national companies. Mr. Tsui is a certificated member of Certified General Accountants' Association of Canada, a member of the Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Chartered Secretaries and Administrators, and the Hong Kong Institute of Chartered Secretaries. Mr. Tsui graduated from the Institute for Financial Management, a joint body of Manchester Business School and University of Wales, and received an MBA degree. He is currently a management consultant. Prior to that, he was a Senior Vice President and Chief Financial Officer of a high-tech company listed on NASDAQ.

#### Senior Management – Tele-media Service Business

PENG Xitao, Chief Engineer. During his academic and professional years, Mr. Peng has concentrated on the research, studies, development and establishment of security control, internet backbone and administration of internet operations. In addition, he provided solutions to clients in various aspects relating to the internet operation and interfaces. Mr. Peng joined the Group in 2006. Prior to that, he worked for VODONE and China Unicom, Beijing where he was awarded for outstanding achievement based on his contributions to the internet infrastructure establishment. Mr. Peng holds a Bachelor's Degree in Computer Communication of Posts and Computer Telecommunications and a Master's degree in Computer Applications from Nankai University.

TIAN Min, Chief Editor, First Division. He has spent ten years with Tianjin TV as cameraman, then as director and producer on a variety of columns including life style, travel and info-tainment programs. Prior to joining the Group in 2006, he worked for VODONE and has spent two years in directing and producing programs about multi-nationals in the commercial field. Mr. Tian has earned wide acclaim with many excellent programs which attracted a wide audience. His productions cover a wide spectrum of topics from social issues, travel, interviews to musicals and are broadcasted throughout China. Mr. Tian has extensive experience in television industry. He was awarded top ten TV broadcasts editor of Tianjin City. Mr. Tian holds a Bachelor's Degree in Arts, majoring in History and a Master Degree in World Modern History from Nankai University.



## BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (continued)

### Senior Management (continued)

SUN Feng, Chief Editor, Second Division. During the period from 1998 to 2000, Mr. Sun was the chief choreographer of China Education TV Sports Channel. Afterwards, he became the Chief Editor of CCTV Finance Centre. Mr. Sun has accumulated substantial experience in making documentaries, programs and contests on special topics from which he has won nominations and awards from overseas as well as PRC. He is a graduate in Arts from Beijing Broadcast Academy.

ZHONG Yiming, Chief Editor, Third Division. After graduation, Mr. Zhong remained in his university as a promotion officer for the Communist Party Commission. Afterwards, he became an assistant reporter of China Association of Science and was transferred to Domestic Trade Department as reporter and editor. Before he joined the Group, he was a chief reporter of the China Press and Publications Administration. Mr. Zhong is a frontline reporter who has strong insight to current affairs that the journals and programs he produced have been widely accredited by Chinese officials. Mr. Zhong is a graduate of Journalism in Beijing Broadcast Academy.

HU Tao, Chief Editor, Fourth Division. He has been a reporter for a Chinese TV channel and magazine in the United States for 5 years before he returned to China to work for the CCTV as a reporter. Mr. Hu is an experienced producer in TV commercials in the PRC. He was a production director of an advertising company in Beijing. He also was TV program planner, producer and issuer of numerous program series and was responsible for several live shows by Star TV Hong Kong. Mr. Hu is a postgraduate of Arts in International News of University of Arizona.

FENG Shuang, Executive Director of Beijing Adpeople International Advertising Company Limited. Ms. Feng formerly founded Beijing Haoshuang Advertising Management Co., Ltd. and has been active in the PRC advertising and modelling industries for many years. She has had heavy involvements in production of advertisements of different kinds of events and functions, including cultural promotions, campaigns to fashion shows of both domestic and international brands, model and fashion contests, and large scale functions. Ms. Feng has to her credit a wide client base across many industries.

WANG Xiang, General Manager of Finance, Ms. Wang is a certified Public Accountant in the PRC. Before joining the Group, she has served a foreign mobile technology company for more than 5 years as a finance in-charge where she accumulated extensive corporate finance and management knowledge in telecommunication and value added service industry. Besides, having taken part in several major audits in her role as an external auditor, she has accumulated invaluable experiences which have made her an all-rounded accountant. Ms. Wang holds a Bachelor's Degree in Business Management of Beijing Normal University.

### DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.



## Directors' Report

### DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the directors and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

<b>Name of director</b>	<b>Number of ordinary shares held at HK\$0.01 each</b>	<b>% of total issued share capital</b>
Guo Duen How, Tom	11,600,000	0.83%
Kao Ying Lun	11,200,000	0.81%
Lu Xing	2,620,000	0.19%
Tsui Chun Chung, Arthur	1,360,000	0.10%
Wu Fred Fong	11,200,000	0.81%
Yu Jianmeng	800,000	0.06%
Zhang Lijun	242,500,000**	17.43%**
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	281,280,000	

\*\* refer to the note to the heading "Substantial Shareholder" section below regarding Dr. Zhang Lijun's interest in share of the Company through the exercise of the Consideration Convertible Note subsequent to the balance sheet date.

The interests of the directors in the share options of the Company are separately disclosed in the Section "Share option scheme" below. Save as disclosed herein, as at 31 December 2006, none of the directors or the chief executive of the Company and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies.

#### Directors' rights to acquire shares or debentures

Apart from as disclosed in the section above and under the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



## SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on 7 June 2002 (the "Scheme"), the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The Scheme is effective for the period from 7 June 2002 to 6 June 2012. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the Scheme (the "General Scheme Limit") provided that, inter-alia, the Company may seek approval of the shareholders at a general meeting to refresh the General Scheme Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme may not, subject to shareholders approval, exceed 30% of the share capital of the Company in issued from time to time.

On 1 August 2006, a total of 43,760,000 share options were granted to the directors of the Group and eligible participants pursuant to the Scheme. The options were granted at a cash consideration of HK\$1.00 per grantee and entitled the grantees to subscribe for ordinary shares (of nominal value of HK\$0.01 each) of the Company at an exercise price of HK\$0.85 per share, determined with reference to the then market prices as required under Rule 17.03(9) of the Listing Rules. The options may be exercisable during the period from 1 August 2006 to 31 July 2009. During the year, 1,960,000 of these share options were exercised and none were cancelled.

On 8 November 2006, a total of 32,300,000 shares options were further granted to directors of the Group and eligible participants pursuant to the Scheme. The options were granted at a cash consideration of HK\$1 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK\$0.73 per share. The options may be exercisable during the period from 8 November 2006 and 7 November 2009. 260,000 of these share options were exercised during the year.

The share options granted, exercised and outstanding at 31 December 2006 were detailed in note 33 to the financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS

Except for those transactions set out in note 34 to the financial statements, no director had a beneficial interest in any material contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, save as disclosed below and other than the directors and chief executive of the Company and the companies controlled by them whose interests are disclosed above, the Company was not aware of any shareholder, had any interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

### Long position in the shares of the Company

Name of shareholder	Number of issued shares held	% of the issued share capital
Dr. Zhang Lijun	242,500,000 (note 1)	17.43%
Penta Investment Adviser, Ltd.	237,900,000	17.15%

(note 1) shares held were exclusive of the HK\$66,318,447 Consideration Convertible Note which gave Dr. Zhang Lijun the right to convert into 105,267,376 shares of the Company at an exercise price of HK\$0.63 per share (par value HK\$0.01 each). On 4 January 2007, Dr. Zhang exercised his right to convert the entire Consideration Convertible Note for 105,267,376 new shares of the Company. Immediately after such conversion, Dr. Zhang's shareholding increased to 23.46% as enlarged by the converted new shares.





# Directors' Report

## CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had certain connected transactions, further details of which are included in notes 34 and 35 to the financial statements. The directors believe the relevant disclosure requirement in the annual report is met.

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors and of the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the principles of the code provisions as set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except those deviations identified in the Corporate Governance Report for 2006, which is set out under a separate heading in the Directors' Report.

## AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in accordance with the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises the three independent non-executive directors of the Company.

## AUDITOR

The financial statements have been audited by Horwath Hong Kong CPA Limited, who retire and being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Wu Fred Fong**

*Executive Director*

Hong Kong

20 April 2007