OPERATING RESULTS AND DIVIDEND

Turnover of the Group for the year was HK$18,602,000 (2005: HK$18,007,000), an increase of about 3.3% from the previous year. Operating loss attributable to shareholders was HK$110,274,000 (2005: HK$67,595,000), equivalent to a loss of Hong Kong 13.6 cents per share, a deterioration of 63% from the previous year. As more fully discussed below, the 2006 operating results of the Group reflected the full year's operation of the Chinese Medicine business but only less than one month's operation of the newly acquired tele-media service business. The Board recommends that no dividend will be paid for the year ended 31 December 2006.

OPERATING ENVIRONMENT

As in the past decade, China continues to demonstrate sustainable fast economic growth and has become one of the most influential economies in the world. China's economic growth rate reached 10.7 per cent in 2006, the fourth year in a row that the country's GDP growth rate exceeded 10 per cent. Meanwhile, consumer price index rose by 1.5 per cent in 2006, about 0.3 percentage points lower than 2005. Facing the problems such as high investment growth rate, excessive growth of credit, China had to constantly make macro adjustment and control to avoid overheating of certain sectors. The expectation is that in the foreseeable future, China will maintain the momentum of relatively stable and fast economic growth guided by macro policies to maintain its growth path.

The Group has long identified the People's Republic of China (the "PRC") as a vast market with great potentials. As one of the growth strategy of the Group, efforts have been directed at engaging in that market seeking for investment and co-operation opportunities that would expand the Group's operating circumference while nurturing new dimensions for value creation for the Company's shareholders. The Group has also identified that the convergence of the broadcasting and telecom markets, due mainly to technological advancement, has arrived. The convergence in China, although happens much later than other more developed economies, will enrich the living of the mass population in China and will bring about new longer term opportunities.

With the accession to the World Trade Organisation, China has become more open to information exchange, both in business and for personal interests. China became one of the largest markets for mobile phones in 2006 recording over 400 million users. Broadband users in China reached over 100 million. On average, statistics showed that the broadband users each spent about RMB160 per month. As the user population of the net community grows, a trend is developing in the internet advertising industry. While the conventional mass-media advertising market in China is still going strong, particularly at the run up of the 2008 Olympics, internet advertising is rapidly gaining momentum. Advertisers are more willing to allocate part of their advertising budget to try alternative form of advertising, such as internet advertising, for more precise advertising targeting and results to the presumably more affluent audiences. A number of established Chinese portals recently reported greatly improved advertising revenues. It appears the operating environment is favourably for licensed operators engaging in the tele-media and related businesses.

At present, China has yet to announce the official release of the third generation mobile ("3G") licence which industry observers believe should ideally be at least twelve months prior to the opening of the Olympics to allow time for adequate implementation and penetration. Mobile 3G will greatly support the real-time broadcasting of the Olympic game results any where, any time. With the momentum of the Olympic games building for next year, so is the prospects for advertising in China. With the convergence of the broadcasting and tele-com businesses, the rising demand for info-tainment contents, and the growth in mobile phone and broadband users, the outlook for info-tainment and advertising businesses in which the Group has entered appears promising.

OPERATION REVIEW

During the year, the Group continued its existing Chinese Medicine business and, as part of its transformation, commenced to engage in the new tele-media service business with revenue started to contribute to the Group in December 2006.

Acquisition of Clear Concept – the new tele-media service business

Having obtained the shareholders' approval, in September 2006, the Group successfully acquired 51% of Clear Concept International Limited ("Clear Concept"). Clear Concept indirectly holds 49% of VODone Datamedia Technology Co., Ltd. ("TMD1"), a company incorporated in the PRC with limited liability and is the holder of an exclusive advisory service contract with VODone Telemedia Co., Ltd. ("VODONE") to procure various technical, contents, advertising and marketing and other support services from its related companies in return for a contracting fees income. The Company, thus, indirectly holds 24.99% shareholdings of TMD1. Through such acquisition, the Group has committed to form operating subsidiaries in the PRC to support the role-out of VODONE's tele-media business by agreeing to inject RMB200,000,000 to the operating subsidiaries.

In December 2006, the Company raised approximately HK$240,000,000 by placing of new shares. As abovementioned approximately HK$200,000,000 would be utilised for subscription of equity interests in the TMD Service Companies, namely, VODone Information Engineering Co., Ltd. (formerly known as Beijing Jinkaiman Tech Development Co., Ltd.) ("TMD2"), Beijing Adpeople International Advertising Company Limited ("TMD3") and Beijing Union Times Entertainment Culture Development Co., Ltd. ("TMD4"). TMD2 and TMD4 have become the subsidiaries of the Group since September 2006 while TMD3 became a subsidiary in mid-February of 2007. For further details of VODONE and the TMD Service Companies, please refer to the headings "BACKGROUND OF THE ACQUISITION" and "THE TMD SERVICE COMPANIES" below.

Since the abovementioned acquisition and the initial capital contribution to the new subsidiaries were only made in late 2006, the operating results of the Group for 2006 were still largely dominated by Chinese pharmaceutical business and related impairments and provisions.

The existing Chinese medicine business

The Chinese Medicine business did not grow with the expanding economy mainly inhibited by the unsettled decision with respect to the expansion of the production facilities. The lack of operating funds for the medicine business in the aftermath of the forced relocation restricted marketing and promotion. The Company has not resolved with the Chinese party's proposal for contributing a new round of capital contribution to revitalise the medicine business. As such, the operation was operating in the current relocated production facility at less than optimal efficiency.

FINANCIAL REVIEW

The financial results for the year reflect the continued operation of the Chinese medicine business for the full year in 2006 and the newly acquired tele-media service business which only commenced to contribute revenue to the Group in December 2006.

China pharmaceutical business – Existing business

The business of the Chinese medicine was rather disappointing. For the year ended 2006, the turnover from the sale of Chinese medicine from Huayi Pharmaceutical Company Limited ("Huayi") was merely HK$11,346,000, representing a decrease of 37% compared with last year and resulted in a loss in operation. Gross profit dropped to HK$4,366,000, representing a gross margin of 38%, a deterioration from last year. Reasons for the lower gross profit were mainly due to rising material costs, lower sales after the plant relocation and lack of funding for advertising and revamping of the production facility to improve production capability.

In view of the deteriorating performance of Huayi and the expectation of its inability to turnaround and contribute profits to the Group in the near future, the Board considered that a Goodwill impairment charge of $30,918,000 was considered appropriate. Due to sustained losses over the last few years for reasons deliberated in previous annual reports of the Company, the Board is currently reviewing the various options and would not rule out the possibility of winding down or disposing of the Chinese Medicine business in the near future thus allow management's attention to be fully engaged in developing the new tele-media service business which the Board considers to have a much higher potential.

Tele-media service business – New business

Subsequent to the acquisition, the tele-media service business started to contribute a turnover of HK$7,256,000 to the Group in the December month of 2006. The tele-media service business only commenced after funding was contributed just before the year-end. However, due to the startup cost involved and the minimal initial scale of operation, the tele-media service business did not record any operating profit in the first month of its operation. The Directors consider that, the tele-media service business will become the core revenue and profit source for the Group in the future. The revenue and profit contribution will be expected mainly from the internet advertising (see discussion of Web Union below), and the revenue sharing with strategic partners for advertising revenue and/or pay per view subscription.

During the year, the Selling, General and Administration costs were HK$83,727,000, an increase of over 122% of that of last year. The accounting effect of adoption of the new accounting standards since 1 January 2005 continues to have a significant impact on the operating loss of the Group in 2006. Costs for the year included the cost of HK$19,502,000 related to share based compensation. Substantial professional and other fees relating to the Clear Concept Acquisition and, the two placings/subscription were incurred throughout the year which contributed a further charge of HK$17,000,000 to the operating loss. During the year, the Group made a HK$20,000,000 compensation provision for the long service executives and recognised a goodwill impairment loss of HK$30,918,000. The non-operation components associated with the old operation, accounted for a majority of the operating loss for the year. The Directors consider that, with the contribution of turnover by TMD Service Companies in the next year, the financial results and position will start to show improvement.

Liquidity And Financial Resources

As at 31 December 2006, the Group had HK$206,320,000 cash and cash equivalents (2005: HK$4,794,000). Working capital also improved to HK$101,523,000 as compared to a negative working capital of HK$42,444,000 at the end of last year. The significant improvement in liquidity of the Group was largely the result of the two successful placings completed in February and December of 2006 generated gross proceeds of HK$29,217,550 and HK$240,000,000 respectively. Part of the proceeds were used to fully settle the HK$20,500,000 unsecured loan outstanding from prior years and for the initial capital contribution to TMD2 and TMD4 service companies. Subsequently on 4 January 2007, the conversion of HK$49,826,000 convertible note by Dr. Zhang, the substantial shareholder, into ordinary shares rendered the debt level of the Group to minimal.

FINANCIAL REVIEW (continued)

Liquidity And Financial Resources (continued)

The exercise of share options by the eligible participants of Group's share option scheme also contributed extra liquidity to the Group. During the year, the Group has granted 43,760,000 share options exercisable at HK$0.85 each in August 2006 and 32,300,000 share options exercisable at HK$0.73 each at November 2006. During 2006, a total of 6,920,000 share options were exercised by the participants. The total proceeds arising from the exercise of such share options in 2006 amounted to HK$5,897,000 and were used as general working capital of the Group.

As at 31 December 2006, the Group's current ratio improved to 1.84 (2005: 0.28), debt to equity ratio and gearing ratio (i.e., interest bearing bank loans and other borrowings to shareholders' equity) were lowered to 0.01(2005: 0.13) and 0.01 (2005: 1.48) respectively.

Capital structure

As at 31 December 2006, the Group had total assets of HK$538,400,000 (2005: HK$86,142,000) which were financed by shareholders' funds of HK$385,229,000 (2005: HK$16,180,000), total liabilities of HK$123,376,000 (2005: HK$60,706,000) and minority interests of HK$29,795,000 (2005: HK$9,256,000).

In 2006, the Group substantially expanded its equity base, due mainly to (i) the two placing events completed in February and December to raise approximately HK$29,217,550 and HK$240,000,000 by issuing 124,330,000 and 342,856,000 new ordinary shares at HK$0.235 and HK$0.7 per share respectively; (ii) allotment of 280,000,000 shares of HK$0.63 each as consideration of acquiring 51% shareholdings of Clear Concept; and (iii) exercise of share options by the participants of the Group's share option scheme to a total of 6,920,000 shares. The main purpose of conducting the placing activities was to obtain funding for injection of capital to TMD Service Companies, allowing them to roll out their businesses for revenue generation. As a result of new shares issued in respect of the placings, consideration shares and the share options, the total number of issued shares increased from 636,650,673 to 1,390,756,673 at the year end.

Commitments, pledge of assets and contingent liabilities

As at 31 December 2006, the Group had no pledge of assets nor contingent liabilities of trade nature relating to trust receipts and export loans (2005: nil). However, as disclosed in note 32 to the financial statements, the Group has committed to further inject capital of RMB136,000,000 in TMD2 and RMB17,000,000 in TMD4 in addition to the initial 15% of the paid-in capital made in December 2006. The injection of the balances was subsequently fully contributed in early January 2007 while the entire paid-in capital of RMB20,000,000 for TMD3 was fully injected in February 2007.

BACKGROUND OF THE ACQUISITION

Due to significant business development potentials brought about due to the convergence of the broadcasting and tele-com businesses and the rising demand for info-tainment of the mass population, the Group invests in Clear Concept and the TMD Service Companies to strive to maximise the shareholders' value of the Company. The following is the introduction of these investee companies and their related businesses.

VODONE TELEMEDIA CO., LTD. ("VODONE")

VODONE is a company incorporated in the PRC in mid 2005 and operates a nation-wide audio/video broadband transmission platform delivering a range of cross media telecommunications contents and valued added services, directly and indirectly, to its customers. VODONE's customers include users of broadband internet, mobile phone users and internet protocol television ("IPTV") viewers. VODONE's mission is to build a nation-wide "tele-media" company in the PRC. In addition to self-produce programs and contents, VODONE has built a content management platform to aggregate third party contents (such as programs or video blocks) into VODONE's website for onward distribution and revenue generation. VODONE has established a new digital video streaming transmission platform targeting the multi-million Mobile Infotainment market and bulletin board system publication platform over the broadband internet and mobile phone network to facilitate electronic transmission of program, advertising and publication materials etc. targeting the 100,000,000 user broadband market, the 430,000,000 user mobile phone market and the 400,000,000 user fixed line market.

In the second half of 2006, the business model of Web Union was being commercialised and was put on trial run. It involves broadcasting contents and advertisement to the web members. The pageviews or traffic of the participating web members are collected together and are sold to advertisers in bulk and generate advertising revenue. Web members get to share a small portion of the ad revenues and VODONE/TMD Group get the bulk of revenue. The Web Union started to generate revenue in early 2007. Preliminary indications are that the response from new members increased significantly which contribute to drastically increasing pageviews with significant revenue generating potentials.

Advantages of VODONE

VODONE is the only company that has obtained all the relevant and necessary licences from The State Administration of Radio Film and Television ("SARFT", 國家廣播電影電視總局) and the Ministry of Information Industry of the People's Republic of China ("MII", 中華人民共和國信息產業部) and other PRC authorities that VODONE is able to produce and broadcast audio/video programs through internet and operate telemedia related business in the PRC. This also makes VODONE capable of producing different types of programs that can penetrate to different classes of audiences with different tastes and needs. Brief details of those licenses are as follows:

Licenses issued by the SARFT

- 廣播電視節目制作經營許可證 (Radio and TV Program Production and Business Operation License);

- 信息網絡傳播視聽節目許可證 (Information Network Communicated Audio-Video Program License);

Licenses issued by MII

- 電信與信息服務業務經營許可證 (Telecom and Information Service Operation License), 北京市通信管理局 (Beijing Municipal Telecommunications Administrative Bureau)

- 增值電信業經營許可證 (Value-added Telecom Service Operation License)

License issued by the Ministry of Culture of the People's Republic of China（中華人民共和國文化部）

- 網絡文化經營許可證 (Network Culture Operation License)

VODONE TELEMEDIA CO., LTD. ("VODONE") (continued)

Advantages of VODONE (continued)

License issued by Beijing Municipal Science & Technology Commission（北京市科學技術委員會）

- 高新技術企業批准證書 (High Technology Enterprise Certificate)

License issued by the Beijing Administration of Industry and Commerce（北京工商行政管理局）

- 設計制作網絡廣告經營權 (Designing and Making Network Advertisement Operation Right)

Notice issued by the Ministry of Health of the People's Republic of China（中華人民共和國衛生部）

- 關於通過互聯網衛生信息服務管理審核的通知 (Notice of the Passing of the Regulatory Examination of Internet Health Information Services)

To enhance its competitiveness and to create new business opportunities, VODONE has cooperated with:

(i) Microsoft MSN China to form a joint portal platform providing video service (http://vodone.msn.com.cn);

(ii) CNCMAX (a subsidiary of China Network Communications Group Corporation) to launch live broadcasting channels providing real-time programs in news, finance, entertainment, sports and lifestyle contents to broadband and mobile phone users (http://cncmax.vodone.com);

(iii) China Unicom NewSpace, to engage in mobile broadcasting such that mobile users of China Unicom can view VODONE's video streaming of programs and advertisement.

As discussed in the Chairman Statement section the potential for the PRC mobile and internet market is enormous. Surveys and analyses from authoritative organisations predict that the growth of which will be at an exponential pace. With VODONE maintaining the leadership in the industry and striving for excellence, the prospects is encouraging.

TMD1 and TMD Service Companies

TMD1 is a company incorporated in the PRC and is the 50-year exclusive provider to VODONE in terms of technical, business support and content services. After the completion of the acquisition of 51% of Clear Concept International Limited in September 2006, the Company has indirect 24.99% interest in TMD1. For TMD1 to effectively perform the full range of services to VODONE, it has set up 50-year sub-contracting arrangements with each of the TMD Service Companies (i.e., TMD2, TMD3 and TMD4) to procure various technical or functionally specialised services in accordance with the business scope of each of the TMD Service Companies which include, among others, the delivery of various technical, contents, advertising and marketing and other support services.

Of which, TMD2 is responsible for providing advertising technical services, sales services, technical support and intellectual property rights licensing. TMD3 focuses on corporate image planning, advertising design and production, sourcing of advertisements, research and information consultation on advertising market, advertising agency and intellectual property rights licensing and TMD4 serves on corporate image planning, content production and intellectual property rights licensing.

As at 31 December 2006, the Group has interests as to 99.69% in TMD2 and 97.09% in TMD4. As mentioned above, TMD3 has become a wholly owned subsidiary of the Group since mid-February 2007.

EMPLOYEES REMUNERATION AND BENEFITS

As at 31 December 2006, the Group had approximately 160 staff in China and Hong Kong. They include management, administration, production and sales personnel for both the Chinese Medicine business and the new tele-media service business. Significant additions of new staff will be recruited to support the brisk business development of the tele-media business.

The Group remunerates its Directors and staff primarily based on their contribution, responsibility, qualification and experience. Since 2002, the Group implemented a staff stock option plan and certain senior management executives and the Directors are offered housing benefits as part of their remuneration package. All employees and Directors in Hong Kong have joined the MPF scheme.

PROSPECTS

In the past decade, China continues to demonstrate high economic growth and has become the core of the global economy. As the China economy keeps surging and the living standard improving, the demand for information from news to entertainment will greatly increase. The Group has grasped this golden opportunity by partnering with VODONE to provide the essential services required by it. With solid fundamentals and a legally qualified status, VODONE will be spectacular in the near future. Meanwhile, as the Group will concentrate resources on the development of the tele-media service and related business, the Directors are considering all options with respect to the Chinese pharmaceutical business in the near future.

GRATITUDE

The Board would like to take this opportunity to express its gratitude to all the shareholders who have supported the Company throughout the years. Also appreciation goes to all the staff for their loyal contributions. The transformation will not happen without their unfailing support.

On behalf of the board

Wu Fred Fong
Executive Director

Hong Kong
20 April 2007