1. CORPORATE INFORMATION

The registered office of VODone Limited (formerly known as Yanion International Holdings Limited) is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

During the year, the Group continued its principal activity of manufacturing, trading and contracting of Chinese medicine products in the People's Republic of China (the "PRC"). In December 2006, following the completion of the acquisition of 51% interest of Clear Concept International Limited and the ensuing initial capital contribution to the TMD Service Companies, the principal activities of the Group is augmented by the tele-media service business in the PRC.

With effect from 19 February 2007, the Company has changed its name to VODone Limited.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong with the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the year, the Group adopted the following new and revised HKFRS effective for accounting periods beginning on or after 1 January 2006, issued by the HKICPA which are relevant to the Group's operations. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current or prior years:

• HKAS 21 Amendment	Net investment in a Foreign Operation
• HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
• HKAS 39 Amendments	The Fair Value Option
• HK(IFRIC)– Int 4	Determining whether an Arrangement contains a Lease

(a) HKAS 21 Amendment "The Effect of Changes in Foreign Exchange Rates" – Net Investment in a Foreign Operation

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 and 2005.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Statement of compliance (continued)

(b) HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value and to be re-measured at the higher of the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements as the Group did not issue any such guarantee during the year.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset to be measured at fair value through the profit or loss. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(c) HK(IFRIC)– Int 4 "Determining whether an Arrangement contains a Lease"

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

The Group has not early adopted the following new HKFRSs that have been issued but are not yet effective. The directors of the Group anticipate that while the adoption of HKAS 1 Amendment and HKFRS 7 will result in new and amended disclosures, the application of these standards or interpretations will have no material impact on the financial statements of the Group.

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HK(IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries for the fiscal year ended 31 December.

The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant inter-company transactions and balances have been eliminated on consolidation.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

(c) Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are recognised at their values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss account.

(d) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Associate

An associate is an enterprise, not being a subsidiary nor an interest in a joint venture, over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognised. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group enterprise transacts with an associate of the Group, unrealised gains and losses are eliminated to the extent of the group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of fixed assets over their anticipated useful lives on a straight-line basis. The principal annual rates used for this purpose are as follows:

Plant, machinery and equipment	10% – 15%
Furniture, fixtures and office equipment	10% – 20%
Motor vehicle	20%

The gain or loss on disposal or retirement of an asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying value of the relevant asset.

(g) Chinese medicine intellectual property and knowhow

Chinese medicine intellectual property and knowhow is stated at cost less impairment losses and amortised using the straight-line basis over the commercial lives of the underlying medicine products ranging from seven to twenty years, commencing from the date of acquisition.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(i) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Such impairment losses are recognised in the profit and loss account.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the carrying amount of the asset (or cash generating unit) that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of purchase of materials computed using the FIFO method and, in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management estimates based on prevailing market conditions.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contracted provision of the instrument.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments classified as available-for-sale are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit and loss account for the period. Impairment losses recognised in the profit and loss account for equity investments classified as available-for-sale are not subsequently reversed through profit and loss account.

Accounts and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

Cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and are subject to an insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised in the profit and loss account over the term of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for the liability for at least 12 months after the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Convertible notes/bonds

Convertible notes/bonds are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes/bonds and fair value assigned to the liability component, representing the embedded option for the holder to convert the note/bond into equity of the Company, is included in equity (capital reserve).

Issue costs are apportioned between the liability and equity components of the convertible notes/bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate of similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note/bond.

Accounts payable

Accounts payable are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(l) Employees' benefits

(i) Short term benefits

Salaries, annual bonuses, paid annual leaves and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

(ii) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Prior to the MPF Scheme being effective, the Group did not have any pension arrangements for its employees.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Employees' benefits (continued)

(ii) Retirement benefit costs (continued)

The employees of the Group's subsidiaries in the PRC are members of central pension schemes operated by the local governments in the PRC and these subsidiaries make mandatory contributions to these central pension schemes to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC, and are charged to the profit and loss account as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the central pension schemes operated by the local governments in the PRC.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(m) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation is provided for on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

(p) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from contracting revenues, when services have been rendered or substantially performed in accordance with the terms of the contract; and

(iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(q) Foreign currency translation

The Company's principal subsidiaries are located in the PRC whose functional and presentation currencies are in Renminbi ("RMB").

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Foreign currency translation (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchanges rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translated differences on non-monetary items, such as equity instruments held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

On consolidation, the balance sheet of subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date while the profit and loss is translated at an average rate. The resulting translation differences are included in the exchange fluctuation reserve.

(r) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(s) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude available-for-sale investment and certain property, plant and equipment. Segment liabilities primarily comprise operating liabilities. Capital expenditure mainly comprises additions to property, plant and equipment.

In respect of geographical segment reporting, sales are based in the country in which the customers are located. Total assets and capital expenditure are where the assets are located.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may effect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainty

The Group also makes estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy as referred to in Note 2(h) above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.

(ii) Share option expense is subject to the limitations of the Black Scholes pricing model and the uncertainty in estimates used by management in the assumptions. The Black Scholes pricing model is modified for the early exercise of share options in limited open exercise periods. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the profit and loss account and employee share-based compensative reserve.

4. SEGMENT INFORMATION

The Group's operating businesses are structured and managed by product segments. Each of the Group's product segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other product segments.

During the year ended 31 December 2005 the turnover and operating results of the Group were entirely derived from one business segment which was the manufacturing, trading and contracting of Chinese Medicine products in the PRC. Accordingly, no analysis by business or geographic segment is provided for 2005.

During 2006, the turnover and operating results of the Group were derived from the following two business segments:

- manufacturing, trading and contracting of Chinese Medicine products; and
- tele-media service in the PRC.

4. SEGMENT INFORMATION (continued)

During the year, the Group's operations are situated in the PRC in which its revenue was derived principally therefrom. Accordingly, no geographical segments are presented.

The following table present revenue, results and certain asset, liability and expenditure information for the Group's business segments for 2006:

	Manufacturing, trading and contracting of Chinese Medicine products HK$'000	Tele-media service HK$'000	Consolidated HK$'000
Segment revenue:			
Turnover	**11,346**	**7,256**	**18,602**
Segment results	**(42,074)**	**(6,158)**	**(48,232)**
Unallocated corporate expenses			**(63,309)**
Loss from operating activities			**(111,541)**
Finance costs			**(1,587)**
Share of results of an associate			**1**
Loss before minority interests			**(113,127)**

4. SEGMENT INFORMATION (continued)

	Manufacturing, trading and contracting of Chinese Medicine products *HK$'000*	Tele-media service *HK$'000*	Consolidated *HK$'000*
Assets:			
Segment assets	**46,766**	**288,170**	**334,936**
Unallocated corporate assets			**203,464**
Consolidated total assets			**538,400**
Liabilities:			
Segment liabilities	**29,091**	**1,102**	**30,193**
Unallocated corporate liabilities			**93,183**
			123,376
Other information:			
Allowance for doubtful debts	**63**	**–**	**63**
Capital expenditure	**120**	**1,136**	**1,256**
Depreciation	**1,434**	**9**	**1,443**
Amortisation of intangible assets	**4,236**	**–**	**4,236**
Impairment of goodwill	**30,918**	**–**	**30,918**
Imputed interest on Consideration Convertible Note	**–**	**–**	**1,201**
Share based payment expenses	**–**	**–**	**19,502**

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and project service fees earned. An analysis of turnover and revenue is as follows:

	2006 HK$'000	2005 HK$'000
Turnover		
Sales of medicines	**11,346**	18,007
Service fee income	**7,256**	–
	18,602	18,007
Other revenue		
Interest income	**137**	10
Other income	**9**	3
	146	13
Total revenue	**18,748**	18,020

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Group 2006 HK$'000	Group 2005 HK$'000
Cost of inventories sold	**5,547**	7,156
Provision against inventories*	**1,433**	575
Amortisation of Chinese medicine intellectual property and knowhow	**4,236**	4,103
Depreciation	**1,443**	1,298
Loss on disposal of property, plant and equipment	**8**	891
Provision for doubtful debts	**63**	865
Auditor's remuneration	**858**	644
Net foreign exchange loss	**4**	2
Staff costs (excluding directors' remuneration *(note 7)*)**		
Salaries and wages	**4,983**	3,574
Pension fund contributions	**65**	486
	5,048	4,060

* Provision against inventories is included in "Cost of sales" in the consolidated income statement.

** At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

7. DIRECTORS' REMUNERATION

	Group 2006 HK$'000	2005 HK$'000
Directors' Fees		
Executive Directors	**215**	2,850
Independent non-executive Directors	**300**	387
Basic remuneration, housing, other allowances and benefits in kind	**18,828**	7,659
Mandatory provident fund contributions	**72**	76
	19,415	10,972

Directors' remuneration related information disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors fees HK$000	Remuneration, allowances and benefits in kind HK$000	Share-based payments HK$000	Pension fund contributions HK$000	2006 Total HK$000
Executive Directors					
Fung Chi Kin (i)	–	–	–	–	**–**
Guo Duen How, Tom	–	220	1,869	12	**2,101**
Ho Yuk Ming, Hugo (i)	–	–	–	–	**–**
Kao Ying Lun	–	2,110	2,007	30	**4,147**
Li Mingke (i)	–	–	–	–	**–**
Lu Xing	–	67	1,837	–	**1,904**
Wang Chun	–	917	1,801	–	**2,718**
Wu Fred Fong	–	2,082	2,007	30	**4,119**
Yu Jianmeng	215	–	653	–	**868**
Zhang Lijun	–	917	1,801	–	**2,718**
Zhang Zhiyuan, Nathan (i)	–	–	–	–	**–**
Zhao Songyi (i)	–	–	–	–	**–**
Independent non-executive Directors					
Choy Tak Ho	100	–	180	–	**280**
Loke Yu, Alias Loke Hoi Lam	100	–	180	–	**280**
Loo Chung Keung, Steve (i)	–	–	–	–	–
Tsui Chun Chung, Arthur	100	–	180	–	**280**
	515	6,313	12,515	72	**19,415**

(i) These directors resigned in early 2006. No director fees, remuneration, allowances or any kind of benefits were incurred to them during the year.

7. DIRECTORS' REMUNERATION (continued)

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

	Directors fees	Remuneration, allowances and benefits in kind	Share-based payments	Pension fund contributions	2005 Total
	HK$000	*HK$000*	*HK$000*	*HK$000*	*HK$000*
Executive Directors					
Cheng Shu Wing	–	95	225	4	324
Fung Chi Kin	2,100	–	794	–	2,894
Guo Duen How, Tom	–	260	225	12	497
Ho Yuk Ming, Hugo	462	–	794	–	1,256
Kao Ying Lun	–	2,110	225	30	2,365
Wu Fred Fong	–	2,110	225	30	2,365
Zhang Zhiyuan, Nathan	288	–	398	–	686
Independent non-executive Directors					
Choy Tak Ho	100	–	79	–	179
Loke Yu, Alias Loke Hoi Lam	75	–	–	–	75
Loo Chung Keung, Steve	75	–	–	–	75
Tsui Chun Chung, Arthur	100	–	79	–	179
Wong Chun Wah	37	–	40	–	77
	3,237	4,575	3,084	76	10,972

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Group during the year included five (2005: five) directors, details of whose remuneration are set out in note 7 above. During the year, no emoluments were paid by the Group to the highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of offices.

9. FINANCE COSTS

	Group 2006	2005
	HK$'000	*HK$'000*
Imputed interest on Consideration Convertible Note *(note 23)*	**1,201**	–
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**386**	1,697
	1,587	1,697

10. INCOME TAX

(a) No provision for profits tax was made as the Group has sustained tax losses for the year.

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

	2006 **HK$'000**	2005 HK$'000
Loss before tax	**(113,127)**	(70,148)
Taxation calculated at Hong Kong profits tax of 17.5%	**(19,797)**	(12,276)
Tax effect of expenses not deductible for taxation purposes	**7,413**	10,647
Deferred tax assets not recognised	**11,959**	1,276
Effect of different tax rates of subsidiaries operating in other jurisdictions	**425**	353
Income tax for the year	**–**	–

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2006 dealt with in the financial statements of the Company is HK$64,161,000 (2005: HK$76,469,000, as restated) (note 27(a)).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$110,274,000 (2005: HK$67,595,000) and the weighted average of 810,986,941 (2005: 622,494,509) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2006 and 2005 have not been shown as the share options outstanding during both years had an anti-dilutive effect on the basic loss per share for both years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Motor Vehicle HK$000	Plant, machinery and equipment HK$000	Furniture, fixture and office equipment HK$'000	Total HK$'000
Cost:				
At 1 January 2005	–	8,660	1,389	10,049
Additions	–	899	342	1,241
Disposals	–	(2,644)	(770)	(3,414)
Exchange adjustments	–	450	38	488
At 31 December 2005	–	7,365	999	8,364
Acquisition of subsidiaries	–	104	14	118
Additions	57	889	310	1,256
Disposals	–	(121)	–	(121)
Exchange adjustments	–	466	39	505
At 31 December 2006	**57**	**8,703**	**1,362**	**10,122**
Accumulated depreciation:				
At 1 January 2005	–	2,109	408	2,517
Charge for the year	–	873	425	1,298
Written back on disposal	–	(1,925)	(404)	(2,329)
Exchange adjustments	–	261	13	274
At 31 December 2005	–	1,318	442	1,760
Acquisition of subsidiaries	–	53	8	61
Charge for the year	–	1,254	189	1,443
Written back on disposal	–	(80)	–	(80)
Exchange adjustments	–	269	21	290
At 31 December 2006	**-**	**2,814**	**660**	**3,474**
Net book value:				
At 31 December 2006	**57**	**5,889**	**702**	**6,648**
At 31 December 2005	–	6,047	557	6,604

14. INTANGIBLE ASSETS

Group

	Chinese medicine intellectual property and knowhow *HK$'000*
Cost:	
At 1 January 2005	37,551
Exchange adjustments	1,083
At 31 December 2005	38,634
Exchange adjustments	1,258
At 31 December 2006	**39,892**
Accumulated amortisation:	
At 1 January 2005	8,001
Charge for the year	4,103
Exchange adjustments	230
At 31 December 2005	12,334
Charge for the year	4,236
Exchange adjustments	402
At 31 December 2006	**16,972**
Net book value:	
At 31 December 2006	**22,920**
At 31 December 2005	26,300

15. AVAILABLE-FOR-SALE INVESTMENT

The investment represents the Group's 10% equity interest in 北京心裡話通信技術有限公司, a company established in the PRC. The principal activity of the company is provision of internet information services. As the investment does not have a quoted market price in active market and for which other methods of reasonably estimating its fair value are inappropriate, the investment is stated at cost less impairment.

16. INTEREST IN AN ASSOCIATE

	Group 2006 HK$'000	2005 HK$'000
Share of net assets	**57**	–
Goodwill	**47,994**	–
	48,051	–

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

Name of company	Place of incorporation and operation	Proportion of ownership: Ownership interest	Proportion of ownership: Voting power held	Principal activity
第一視頻數碼媒體技術有限公司 (VODone Datamedia Technology Co., Ltd) ("TMD1")	PRC	49%	49%	Provision of tele-media business support and content services

Summarised financial information in respect of the Group's associate is set out below:

	HK$'000
Total assets	5,551
Total liabilities	(5,435)
Net assets	116
Group's share of associate's net assets	57

	HK$'000
Revenue	5,604
Profit for the period	2
Group's share of associate's profit for the period	1

17. GOODWILL

The amount of the goodwill capitalised as an asset, arising from the acquisition of subsidiaries, is as follows:

	Group
	HK$'000
Cost:	
At 1 January 2005	150,328
Opening adjustment to eliminate accumulated amortisation	(72,354)
At 31 December 2005	77,974
Arising from acquisition of subsidiaries	231,792
At 31 December 2006	**309,766**
Accumulated amortisation:	
At 1 December 2005	72,354
Opening balance adjustment to eliminate against cost	(72,354)
At 31 December 2005	–
Impairment:	
Impairment loss recognised in the year and balance at 31 December 2005	40,950
Impairment loss recognised in the year	30,918
At 31 December 2006	**71,868**
Net book value:	
At 31 December 2006	**237,898**
At 31 December 2005	37,024

17. GOODWILL (continued)

Goodwill is allocated to the Group's cash generating units ("CGUs") identified to country of operation and business segment. The carrying amounts, prior to impairment losses, as at 31 December 2005 and 2006 were related to the Group's Chinese Medicine business ("Chinese medicine CGU") and tele-media service business ("Tele-media CGU") in the PRC and were allocated as follows:

	2006	2005
	HK$'000	*HK$'000*
Chinese medicine CGU	**77,974**	77,974
Tele-media CGU	**231,792**	–
	309,766	77,974

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. For 2006 fiscal end, 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.

In respect of the Tele-media CGU, the appraiser applied the income approach to determine the value of the fair market value of the CGU. The key assumptions for discounting the five years future cash flow projection are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the projection period. The appraiser estimates discount rates using the Capital Assets Pricing Model that based on stock prices of certain comparable companies listed on the Stock Exchange Hong Kong Limited. The discount rates applied in the valuation ranged from 20.2% to 23.13% and growth rates from 5% to 60% depending on the components of revenue mix were adopted. A minority discount of 20% (applicable to TMD1 only) and marketability discount of 25% respectively were adopted.

In respect of the Chinese medicine CGU, the appraiser applied the income and market approaches as considered appropriate to determine the value of the intellectual properties, or alternatively, the goodwill. The recoverable amount of goodwill is determined from value in use calculations using a combination of these approaches. The discount rate applied in the valuation of Chinese Medicine CGU was 21.8%. Future benefits in the form of royalty income from third parties are estimated by management based on net revenue generated by the intellectual properties. Such net revenue is forecasted based on estimation of the market size for each product and the market share of the product supported by reasonable promotional expenditure in the next 5 years.

In the market approach, also referred to as the sales comparison method, the value of the intellectual properties is estimated through the analysis of recent sales of comparable intellectual properties. Specifically, the appraiser relied on the transaction price of medicines with similar functions to the intellectual properties being appraised by referring to the recent publicly available auction prices as a benchmark for determination of the fair value of the intellectual properties.

Based on the results of the independent valuations, the Group reduced the carrying value of goodwill of its Chinese medicine CGU through recognition of an impairment loss of HK$30,918,000 for the year.

18. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	2005 HK$'000
Unlisted shares/capital contributions, at cost	**270,158**	1
Due from subsidiaries	**518,867**	517,810
	789,025	517,811
Provision for impairment	**(467,539)**	(467,539)
	321,486	50,272

The amounts due are unsecured, interest-free and are not repayable within the twelve months following the balance sheet date.

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held directly by the Company Direct	Indirect	Principal activities
China Medicine International Limited	Hong Kong	HK$2	100%	–	Provision of administrative services
Yacata Limited	British Virgin Islands	US$1	100%	–	Investment Holding
Korning Investments Limited	British Virgin Islands	US$1	–	94%	Investment Holding
Star Wisdom Investments Limited	British Virgin Islands	US$1	–	94%	Investment Holding
Huayi Pharmaceutical Company Limited ("Huayi")	People's Republic of China	RMB126,000,000	–	56%	Manufacturing, trading and contracting of Chinese medicine products
Clear Concept International Limited ("Clear Concept")	British Virgin Islands	US$200	51%	–	Investment Holding
Bentex (Hong Kong) Limited ("Bentex")	Hong Kong	HK$2	–	51%	Investment Holding

18. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held directly by the Company Direct	Indirect	Principal activities
Adpeople Company Limited ("Adpeople")	Hong Kong	HK$10,000	100%	–	Investment Holding
第一視頻信息工程有限公司 (前北京金開曼科技發展有限公司) (VODone Information Engineering Co., Ltd (formerly known as Beijing Jinkaiman Tech Development Co., Ltd)) ("TMD2")	People's Republic of China	RMB24,923,254	99.69%	–	Provision of technical and promotional services
北京互聯時代娛樂文化發展有限公司 (Beijing Union Times Entertainment Culture Development Co., Ltd) ("TMD4")	People's Republic of China	RMB3,652,907	97.09%	–	Provision of production services

19. INVENTORIES

	Group 2006 HK$'000	2005 HK$'000
Raw materials	**989**	442
Work in progress	**1,962**	2,229
Finished goods	**4,483**	3,203
	7,434	5,874

20. ACCOUNTS RECEIVABLE

An aging analysis of the accounts receivable as at the balance sheet date, based on payment due date, and net of provisions is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**–**	866
2 to 3 months	**40**	1,438
4 to 6 months	**199**	647
7 to 12 months	**931**	1,228
Over 1 year	**486**	566
	1,656	4,745

21. DEPOSIT FOR INVESTMENT

On 21 March, 2003, Huayi has entered into an agreement to acquire from an independent third party (i) 40% equity interest in two Sino-foreign joint venture companies and (ii) the right of exploitation of wild herbs (collectively referred to as the "Investment") at a total consideration of approximately HK$67,888,000. The purpose of the investment is to develop a Chinese medicinal centre and wild herbs harvesting area. Partial payments for the consideration in the total of approximately HK$48,879,000 were made in July 2003. The vendor has agreed with Huayi on 31 December 2003 that the balance of consideration in the amount of approximately HK$19,009,000 be payable by 31 May 2004. As of 31 December 2006, the balance of consideration has not been paid and no settlement agreement has been reached by Huayi and the third party. Full provision for the deposit paid has been made in the financial statements for the year ended 31 December 2004. The current status of the investment is detailed in note 30.

22. ACCOUNTS PAYABLE

An aging analysis of the accounts payable as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**3,446**	288
2 to 3 months	**553**	–
4 to 6 months	**–**	115
7 to 12 months	**1,072**	18
Over 1 year	**403**	895
	5,474	1,316

23. CONVERTIBLE NOTES

In April 2004, the Company entered into a subscription agreement with DBS Bank Limited ("DBS") and redeemable convertible notes in the amount of HK$21,500,000 were issued to mature on 30 April 2006. The notes carried a coupon interest rate of 2% per annum. They could be converted into new ordinary shares of the Company, rank pari passu, at a conversion price of HK$0.43 per share were they not redeemed.

In December 2004 and January 2005, 23,000,000 and 27,000,000 shares were issued respectively on redemption at the conversion price of HK$0.43 per share (par value of HK$0.01 each) on conversion of all the convertible notes and the entire debt was extinguished.

As reported in the Company's circular dated 18 August 2006, pursuant to the Sale and Purchase Agreement ("S&P Agreement") dated 11 June 2006 between the Company (as the purchaser) and Big Step Group Limited, a company wholly-owned by Dr. Zhang Lijun ("Dr. Zhang") (as the vendor), the total consideration of RMB250,000,000 for the acquisition of 51% interest in Clear Concept would be satisfied by the issue to the vendor of a combination of Consideration Shares at a price of HK$0.63 each and/or Consideration Convertible Note exercisable at a price of HK$0.63 per share. At completion of the acquisition of Clear Concept which took place on 28 September 2006, 280,000,000 Consideration Shares and the Consideration Convertible Note with the principal amount of HK$66,318,447 were issued by the Company to the vendor and/or its nominee. The Consideration Convertible Note carried no interest and would mature on the third anniversary date of the note. The note may be converted into shares of the Company by the vendor at an exercisable price of HK$0.63 per share at any time prior to maturity. The entire Consideration Convertible Note remained outstanding as at 31 December 2006.

The carrying amount of the Consideration Convertible Note in issue was split into the equity and liability components. The fair value of the liability component was calculated using a market interest rate of 10% at the date of grant. The residual amount of HK$16,492,000 representing the value of the equity conversion component, is included in shareholders' equity in capital reserve.

The movement of the Consideration Convertible Note for the year is set out below:

	Equity component *HK$'000* *(note 27)*	**Liability component** *HK$'000*	**Total** *HK$'000*
At 1 January 2005	–	11,610	11,610
Converted to ordinary shares	–	(11,610)	(11,610)
At 31 December 2005	–	–	–
Issue of Consideration Convertible Note	16,492	49,826	66,318
Imputed interest *(note 9)*	–	1,201	1,201
At 31 December 2006	**16,492**	**51,027**	**67,519**

The Consideration Convertible Note was subsequently fully converted into 105,267,376 shares in January 2007 (note 37(b)).

24. OTHER BORROWINGS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other borrowings – unsecured	**3,529**	24,005	**–**	20,543
Other borrowings repayable:				
– within one year *(note)*	**1,414**	21,957	**–**	20,543
– after one year	**2,115**	2,048	**–**	–
	3,529	24,005	**–**	20,543
Portion classified as current liabilities	**(1,414)**	(21,957)	**–**	(20,543)
Long term portion	**2,115**	2,048	**–**	–

Note:

Included in other borrowings as at 31 December 2005 was a balance of HK$20,543,000 due to an independent financial institution which was unsecured, bore interest at Hong Kong dollar prime rate plus 2% per annum, payable upon repayment of principal. On 8 February 2006, the Company fully discharged the principal and interest of the unsecured debt.

As at 31 December 2006, the Group did not have any other bank borrowings, corporate guarantee or pledge of assets remained outstanding from the prior year.

25. DEFERRED TAXATION

No provision for deferred tax had been made by the Group. The net deferred tax asset position not recognised in the financial statements is as follows:

	2006	2005
	HK$'000	*HK$'000*
Tax losses	**19,941**	7,316

The Company had unprovided deferred tax assets in respect of tax losses in the amount of HK$16,287,000 at the balance sheet date (2005: HK$4,835,000).

26. SHARE CAPITAL

Share capital

	2006 **HK$'000**	2005 HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
1,390,756,673 (2005: 636,650,673) ordinary shares of HK$0.01 each	**13,908**	6,367

The movements in the issued share capital of the Company during the year were as follows:

	Number of ordinary shares	**Share capital** HK$'000
At 1 January 2005	594,650,673	5,947
Shares issued on conversion of convertible notes *(note 23 & 27(a)(ii))*	27,000,000	270
Shares issued on exercise of share options *(note 27(a)(iii))*	15,000,000	150
At 31 December 2005	636,650,673	6,367
Shares issued on placing/subscription *(note 27(a)(iv) & (vi))*	467,186,000	4,672
Shares issued on acquisition *(note 27(a)(v))*	280,000,000	2,800
Shares issued on exercise of share options *(note 27(a)(vii))*	6,920,000	69
At 31 December 2006	**1,390,756,673**	**13,908**

27. RESERVES

a. Company

	Share premium HK$'000	Contribution surplus HK$'000 (note i)	Share based compensation reserve HK$'000	Convertible note reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2005	91,495	76,838	–	–	(103,710)	64,623
Shares issued on conversation of convertible notes *(note ii)*	11,340	–	–	–	–	11,340
Shares issued on exercise of share options *(note iii)*	7,050	–	–	–	–	7,050
Recognition of share-based payments	–	–	3,971	–	–	3,971
Net loss for the year	–	–	–	–	(76,469)	(76,469)
At 31 December 2005	109,885	76,838	3,971	–	(180,179)	10,515
At 31 December 2005						
– As previously reported	109,885	76,838	–	–	(176,208)	10,515
Prior year adjustment in relation to recognition of share-based payment at company level	–	–	3,971	–	(3,971)	–
As restated	109,885	76,838	3,971	–	(180,179)	10,515
Shares issued on placing *(note iv & vi)*	255,962	–	–	–	–	255,962
Shares allotted for acquisition of a subsidiary *(note v)*	173,600	–	–	–	–	173,600
Shares issued on exercise of share options *(note vii)*	7,605	–	(1,777)	–	–	5,828
Recognition of share-based payments *(note 33)*	–	–	19,502	–	–	19,502
Cancellation of share options	–	–	(1,620)	–	1,620	–
Convertible note (equity portion) *(note 23)*	–	–	–	16,492	–	16,492
Net loss for the year	–	–	–	–	(64,161)	(64,161)
Balance at 31 December 2006	**547,052**	**76,838**	**20,076**	**16,492**	**(242,720)**	**417,738**

27. RESERVES (continued)

a. Company (continued)

Note:

(i) The Company's and the Group's contributed surplus are derived from the difference between the fair value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Group reorganisation in 1991. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of its contributed surplus under certain circumstances.

(ii) On 18 January 2005, 27,000,000 new ordinary shares with a par value of HK$0.01 each was issued on conversion of convertible notes at the conversion price of HK$0.43 per share. The excess of the share consideration over the nominal value of the issued shares was credited to the share premium account in those years.

(iii) On 26 October 2005, 9,000,000 new ordinary shares with a par value of HK$0.01 each were issued on exercise of share options at subscription price of HK$0.48 per share. On 20 December 2005, a further 6,000,000 new ordinary shares with a par value of HK$0.01 each were issued on exercise of share options at the same subscription price of HK$0.48 per share. The new shares rank pari passu in all respects with the existing shares of the Company.

(iv) On 8 February 2006, the Company completed the placing of 124,330,000 new shares of HK$0.01 each at the placing price of HK$0.235 per share for gross proceeds of HK$29,217,550.

(v) As referred to note 23, as part of settlement for the completion of acquisition of 51% interest in Clear Concept, on 28 September 2006, the Company issued 280,000,000 new shares (par value HK$0.01 each) to the vendor and/or its nominee at a price of HK$0.63 each.

(vi) On 29 December 2006, the Company completed the subscription and the placing. A total of 342,856,000 new shares were issued at a price of HK$0.70 per share.

(vii) During the year, a total of 6,920,000 new shares were issued on exercise of share options by eligible participants. The exercise prices range from HK$0.73 per share to HK$0.86 per share.

The new shares referred to in note (iv) to (vii) rank pari passu in all respects with the existing share of the Company prevailing at time of issue.

b. In accordance with the Company Law of the PRC and the Articles of Association of a subsidiary, Huayi Pharmaceutical Company Limited ("Huayi"), Huayi shall appropriate ten percent and five percent of its annual statutory net profit (after offsetting any prior years' losses) to the Statutory Surplus Reserve (儲備基金) and Enterprise Development Fund (企業發展基金) respectively.

28. RECONCILIATION OF LOSS BEFORE TAX TO NET CASH OUTFLOW GENERATED FROM OPERATING ACTIVITIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	**(113,127)**	(70,148)
Provision against inventories	**1,433**	575
Provision for doubtful debts	**63**	865
Depreciation	**1,443**	1,298
Amortisation of intangible assets	**4,236**	4,103
Impairment of goodwill	**30,918**	40,950
Loss on disposal of property, plant and equipment	**8**	891
Interest income	**(137)**	(10)
Interest expense	**386**	1,697
Imputy interest of convertible notes	**1,201**	–
Share of results of an associate	**(1)**	–
Share based payment expense	**19,502**	3,971
Operating loss before working capital changes	**(54,075)**	(15,808)
Increase in inventories	**(2,993)**	(3,271)
Decrease/(increase) in accounts receivable	**3,142**	(895)
(Increase)/decrease in prepayments and other receivables	**(1,799)**	1,870
Increase in amount due from an associate	**(4,773)**	–
Increase in amount due from a related company	**(1)**	–
Increase/(decrease) in accounts payable	**3,391**	(856)
Increase in deposits received	**11,182**	–
Increase in other payables and accruals	**16,216**	13,531
Increase in amount due to a related company	**563**	171
Effect of foreign exchange rates changes	**(327)**	(234)
Net cash outflow generated from operations	**(29,474)**	(5,492)

29. ACQUISITION OF SUBSIDIARIES

As detailed in the Company's circular dated 18 August 2006, the Company entered into the S&P Agreement to acquire 51% of the issued share capital of Clear Concept. As part of the S&P Agreement, the Company agreed to inject additional registered capital of RMB160,000,000 and RMB20,000,000 to TMD2 and TMD4 respectively resulting in the Group having 99.69% and 97.09% equity interest in TMD2 and TMD4 respectively.

On 28 September 2006, the Company completed the acquisition of the 51% issued share capital of Clear Concept for total consideration of RMB250,000,000, as detailed in the Company's announcement dated 29 September 2006. The consideration was satisfied by the issuance of 280,000,000 Consideration Shares at HK$0.63 per share and the Consideration Convertible Note with a principal amount of HK$66,318,447.

On 3 August and 25 August 2006, TMD2 and TMD4 obtained the approval from the relevant Government authority for the change of status to a sino-foreign joint venture respectively. On 12 December 2006, the Company injected capital of HK$24,240,000 and HK$3,030,000 to TMD2 and TMD4 respectively. Please refer to note 32 for disclosure of the balance of capital commitments in respect of capital contributions. In December 2006, a further cash consideration of RMB13,531,000 was paid in respect of TMD2.

On 1 August 2006, the Company acquired Adpeople at a cash consideration of HK$170,000 which engages in advertising business.

29. ACQUISITION OF SUBSIDIARIES (continued)

The above transactions have been accounted for by the acquisition method of accounting and the net assets acquired in the above transactions, and the goodwill arising, are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	57
Investment in an associate	48,050
Available-for-sale investment	99
Other receivables	116
Cash and cash equivalents	1
Other payables	(767)
	47,556
Minority interest	(23,026)
Goodwill *(note 17)*	231,792
Total consideration	256,322
Satisfied by:	
Cash	13,604
280,000,000 Consideration Shares at HK$0.63 each *(note 27(a)(v))*	176,400
Consideration convertible note *(note 23)*	66,318
	256,322
Net cash outflow arising on acquisition:	
Cash consideration	13,604
Cash and cash equivalents acquired	(1)
	13,603

The goodwill arising on the acquisition of Clear Concept is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

TMD2 and TMD4 contributed a total of HK$7,256,000 of revenue and HK$5,872,000 of net loss for the period between the date of acquisition and the balance sheet date.

30. CONTINGENT LIABILITIES

The contingent liabilities represent an unresolved matter carried forward in the accounts since 2003. As detailed in note 21 to the financial statements, Huayi has contracted for the acquisition of (i) 40% equity interest in two Sino-foreign joint venture companies and (ii) the right of exploitation of wild herbs for the purpose of development of a Chinese medicinal centre and wild herbs harvesting area. As of 31 December 2006, partial payments of approximately HK$51,926,000 (2005: HK$50,288,000) have been made in prior years and the remaining consideration of approximately HK$20,247,000 (2005: HK$19,558,000) has been disclosed under capital commitments (refer to note 32 below).

In accordance with the sale and purchase agreement, the vendor has the right to cancel acquisition and claim for losses to be extent the vendor has suffered, which is not quantifiable at this stage. The directors of the Company had sought advice from PRC legal counsel as to appropriate course of action. No action has been made at this stage to resolve the matter. At the date of approval of these financial statements, the directors are in the opinion that the chance of recovering the deposit paid was in doubt and, for conservatism, full provision has been made against the amount of deposit paid.

31. OPERATING LEASE ARRANGEMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases	**2,805**	3,633

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**4,323**	2,130
In the second to fifth years, inclusive	**6,219**	240
	10,542	2,370

Operating lease payments represent rentals payable by the Group and the Company on certain of its leased properties. Leases are negotiated for an average term of 1 to 2 years at fixed rental.

32. CAPITAL COMMITMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Capital contributions to subsidiaries *(note 29)*	**171,300**	–
Acquisition of investment *(note 30)*	**20,247**	19,558

The Company did not have any contracted capital commitments at the balance sheet date (2005: HK$nil).

33. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

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 exercise price for the share options shall be determined in accordance with the Scheme and the relevant provisions of the Listing Rules. The costs for the value of the grant of share options were recognized as an expense during the year.

On 11 March 2005, a total of 30,000,000 share options were granted to the directors of the Group and eligible participants at a cash consideration of HK$1.00 per grantee which entitled the grantees to subscribe for new ordinary shares (of nominal value of HK$0.01 each) of the Company at an exercise price of HK$0.86 per share. The options may be exercisable during the period from 22 March 2005 to 21 March 2007. On 17 February 2006, 15,000,000 share options were cancelled upon the resignation of certain directors. During the year, a total of 4,700,000 share options were exercised.

On 28 September 2005, a total of 15,000,000 shares options were granted to the directors of the Group and eligible participants at a cash consideration of HK$1.00 per grantee which entitled the grantees to subscribe for new ordinary shares (of nominal value of HK$0.01 each) at an exercise price of HK$0.48 per share. The options may be exercisable during the period from 29 September 2005 to 28 December 2005. All of these share options were exercised within the exercise period in 2005.

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. 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. 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 weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised by the employees was HK$1.58. The options outstanding at the end of the year have a weighted average remaining contractual life of 2.4 years.

33. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Employee share option expenses related to the above grants of share option were estimated to be HK$19,501,980 (2005: HK$3,971,000) and were charged to the consolidated profit and loss account. Such expenses determined with the Black-Scholes valuation model based on the following assumptions:

Date of grant	1 August 2006	8 November 2006
Value per option	HK$0.237	HK$0.283
Price per share at date of grant	HK$0.79	HK$0.74
Exercise price per share	HK$0.85	HK$0.73
Standard deviation	0.799945	0.7634
Annual risk-free interest rate	4.3413%	3.724%
Life of options	3 years	3 years
Dividend yield	0%	0%

The followings are the movements of share options during 2006 and 2005:

2006

Name of participants	At 1 January 2006	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2006
Executive directors					
Fung Chi Kin [(i)]	6,000,000	–	–	(6,000,000)	–
Guo Duen How, Tom [(ii)]	1,700,000	7,600,000	–	–	9,300,000
Ho Yuk Ming, Hugo [(i)]	6,000,000	–	–	(6,000,000)	–
Kao Ying Lun [(iii)]	1,700,000	7,600,000	(1,000,000)	–	8,300,000
Lu Xing	–	7,580,000	–	–	7,580,000
Wang Chun	–	7,600,000	–	–	7,600,000
Wu Fred Fong	1,700,000	7,600,000	(1,000,000)	–	8,300,000
Yu Jianmeng	–	4,100,000	–	–	4,100,000
Zhang Lijun	–	7,600,000	–	–	7,600,000
Zhang Zhiyuan, Nathan [(i)]	3,000,000	–	–	(3,000,000)	–
Independent non-executive directors					
Choy Tak Ho	600,000	760,000	–	–	1,360,000
Loke Yu, Alias Loke Hoi Lam	–	760,000	–	–	760,000
Tsui Chun Chung, Arthur	600,000	760,000	(1,360,000)	–	–
Subtotal	21,300,000	51,960,000	(3,360,000)	(15,000,000)	54,900,000
Other eligible participants	8,700,000	24,100,000	(3,560,000)	–	29,240,000
Total	30,000,000	76,060,000	(6,920,000)	(15,000,000)	84,140,000

33. SHARE-BASED PAYMENT TRANSACTIONS (continued)

2005

Name of participants	At 1 January 2005	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2005
Executive directors					
Cheng Shu Wing (iv)	–	1,700,000	–	–	1,700,000
Fung Chi Kin (i)	–	6,000,000	–	–	6,000,000
Guo Duen How, Tom	–	3,200,000	1,500,000	–	1,700,000
Ho Yuk Ming, Hugo (i)	–	6,000,000	–	–	6,000,000
Kao Ying Lun	–	6,200,000	4,500,000	–	1,700,000
Wu Fred Fong	–	6,200,000	4,500,000	–	1,700,000
Zhang Zhiyuan, Nathan (i)	–	3,000,000	–	–	3,000,000
Independent non-executive directors					
Choy Tak Ho	–	600,000	–	–	600,000
Tsui Chun Chung, Arthur	–	600,000	–	–	600,000
Wong Chun Wah (v)	–	300,000	–	–	300,000
Subtotal	–	33,800,000	10,500,000	–	23,300,000
Other eligible participants	–	11,200,000	4,500,000	–	6,700,000
	–	45,000,000	15,000,000	–	30,000,000

(i) resigned on 17 February 2006
(ii) resigned on 15 March 2007
(iii) resigned on 1 April 2007
(iv) resigned on 20 May 2005
(v) resigned on 17 May 2005

34. RELATED PARTY TRANSACTIONS

(a) Set out below are the related party transactions disclosed in accordance with HKAS 24 issued by the HKICPA:

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Director's quarter expenses paid to a related company, Sunview Company Limited ("Sunview")	*(i)*	**1,080**	1,080
Disposal of property, plant and equipment to a related company, WorldVest Capital Limited ("WorldVest")	*(ii)*	**–**	84
Sharing of office services paid to WorldVest	*(iii)*	**516**	430
Consultancy fee income earned from the associate, TMD1	*(iv)*	**5,270**	–
Acquisition of property, plant and equipment from a related company, Vodone Telemedia Co. Ltd. ("VODONE")	*(v)*	**1,082**	–
Purchase of inventories from VODONE	*(v)*	**91**	–
Service fee charged by VODONE	*(vi)*	**715**	–

(i) The rental expense was related to a property rented for the purpose of providing quarter to a director, and was charged in accordance with the terms of the related rental agreement.

(ii) The Directors have reviewed the lists of the breakdown of used fixed assets and physically inspected the condition of the assets and considered that the terms and selling price of these used fixed assets were in accordance with general commercial practice and were fair and reasonable to the Company.

(iii) Sharing of office expenses were charged in accordance with the actual costs incurred by the Group.

(iv) Consultancy fee income was charged in accordance with the terms and conditions of the exclusive technology support and services agreements entered with TMD1 dated 29 April 2006.

(v) The Directors consider that the acquisitions were made in the ordinary and usual course of business with terms made on normal commercial terms.

(vi) Service fee was charged at 20% on the expenses of TMD2 and TMD4 paid by VODONE on behalf.

Messrs. Guo Duen How, Tom and Wu Fred Fong are the directors of WorldVest. Sunview is owned by an associated person of Mr. Kao Ying Lun. Dr. Zhang Lijun is a shareholder of VODONE.

34. RELATED PARTY TRANSACTIONS (continued)

(b) The remuneration of directors and other member of key management during the year was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Short term benefits	**26,900**	7,888
Share-based payments	**12,515**	3,084
	39,415	10,972

Note:

Included in short term benefits in an accrued bonus of HK$20,000,000 payable to certain long service directors. The allocation to individual directors was not yet determined.

(c) The amounts due from/(to) a related company are interest free, unsecured and has no fixed term of repayment.

(d) The amount due from an associate mainly arising from the trading transaction detailed in note (a)(iv) above is unsecured, interest free and repayable on demand.

35. CONNECTED TRANSACTIONS

The following transactions constitute connected transactions under the Listing Rules.

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Purchase of raw materials/herbs from China National Group Corporation of Traditional and Herbal Medicine ("China National Medicine")	*(i)*	**2,664**	2,046
Rental expenses paid to China National Medicine		**–**	27
Rental expenses paid to Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Center ("Beijing Huamiao")	*(i)*	**695**	566

Note:

(i) China National Medicine is the controlling shareholder of the minority shareholder of Huayi and Beijing Huamiao is a subsidiary of China National Medicine. The Directors consider that the purchases and rental expenses were made in the ordinary and usual course of business with terms made on normal commercial terms.

36. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The main risks arising from the Group's financial instruments are credit risk, foreign exchange risk, liquidity risk and interest rate risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management which are summarised as follows. The Group has not used any derivatives and other instruments for hedging purposes.

(i) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of trade receivables included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group maintains a defined credit policy and allows credit periods ranged from 15 to 90 days to its trade customers. Under exceptional cases, the Group may extend credits to specific customer for periods beyond 90 days upon special approval. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed and monitored by senior management. No other financial assets carry a significant exposure to credit risk.

(ii) Foreign exchange risk

The Group's main operations are in the PRC and has no significant exposure to any specific foreign currency other than Renminbi.

(iii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from financial institutions to meet its liquidity requirements in the short and longer term.

(iv) Interest rate risk

The Group has no interest-bearing assets or long-term borrowings. Its income and operating cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values.

The fair value of interest-bearing borrowing is estimated as the present value of further cash flows, discounted at current market interest rates for similar financial instruments.

37. POST BALANCE SHEET EVENTS

(a) On 3 January 2007, 13,300,000 new shares were issued on exercise of share options by five eligible participants. The exercise prices ranged from HK$0.73 per share to HK$0.86 per share. Total proceeds from issue of shares in total of HK$11,182,000 were received before the end of the year.

(b) On 4 January 2007, the vendor (Dr. Zhang) converted the entire Consideration Convertible Note with principal amount of HK$66,318,447 into 105,267,376 new ordinary shares of the Company. The enlarged issued share capital of the Company immediately after the above conversion was 1,492,104,049.

(c) On 4 January 2007, the Company has fully contributed the required paid-in capital for each of the following tele-media service companies. The percentage of holdings for these companies after the full capital contribution are as follows:

Name of Subsidiaries	Capital contribution made subsequent to 31 December 2006	Percentage holdings
TMD2	HK$135,253,490	99.69%
TMD4	HK$16,906,686	97.09%

(d) On 8 January 2007, the Group's subsidiary, Adpeople set up a wholly owned foreign enterprise in the PRC, Beijing Adpeople International Advertising Company Limited ("TMD3") with a registered capital of RMB20,000,000. On 15 February 2007, the Group has fully injected the registered capital of RMB20,000,000, equivalent to HK$20,151,540.

(e) The directors proposed to change the name of the Company to VODone Limited to better reflect the group's involvement in the tele-media related service business. Subsequent to the shareholders' unanimous approval of the special resolution at the Special General Meeting on 12 February 2007, the Company has changed its name to VODone Limited with effect from 19 February 2007.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the Audit Committee and approved and authorised for issue by the board of Directors on 20 April 2007.