VODONE LIMITED

(Incorporated in Bermuda with limited libility)

Stock code: 82

2007

INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman
Dr. Zhang Lijun

Executive directors
Mr. Lu Xing
Ms. Wang Chun
Mr. Wu Fred Fong
Mr. Yu Jianmeng

Independent non-executive Directors
Dr. Loke Yu alias Loke Hoi Lam
Mr. Wang Zhichen
Mr. Wang Linan

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wu Fred Fong, FCPA

AUDITORS

Horwath Hong Kong CPA Limited

LEGAL ADVISORS

Chiu & Partners
Jones Day
Richards Butler

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTRARS

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

REGISTRAR IN HONG KONG

Tricor Tengis Limited
26th Floor
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28 Queen's Road East
Hong Kong

REGISTERED OFFICE

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Hamilton HM12, Bermuda

PRINCIPAL PLACE OF BUSINESS

Room 2001, 20th Floor
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STOCK EXCHANGE LISTING

Main Board of The Stock Exchange of Hong Kong Limited - Stock code: 82

The board of directors of VODone Limited (the "Company") is pleased to announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
CONTINUING OPERATION			
Turnover	*4*	**44,221**	–
Cost of sales		**(23,384)**	–
Gross profit		**20,837**	–
Other revenues		**1,735**	5
Selling expenses		**(2,576)**	–
Administrative expenses		**(54,970)**	(8,383)
Loss from operations		**(34,974)**	(8,378)
Finance costs	*5*	**–**	(170)
Share of results of an associate		**34**	–
Loss before taxation	*6*	**(34,940)**	(8,548)
Taxation	*7*	**–**	–
Loss for the period from continuing operation		**(34,940)**	(8,548)
DISCONTINUING OPERATION			
Loss for the period from discontinuing operation	*8*	**(4,788)**	(16,567)
Net loss for the period		**(39,728)**	(25,115)
Attributable to:			
Equity holders of the Company		**(38,009)**	(23,306)
Minority interest		**(1,719)**	(1,809)
		(39,728)	(25,115)
Loss per share	*9*		
– basic (HK cents)			
– from continuing and discontinuing operations		**(2.5)**	(3.2)
– from continuing operation		**(2.3)**	(1.2)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2007 (Unaudited) HK$'000	As at 31 December 2006 (Audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*11*	**7,269**	6,648
Intangible assets	*12*	**–**	22,920
Available-for-sale investment		**–**	99
Interest in an associate	*13*	**48,088**	48,051
Goodwill	*14*	**231,792**	237,898
		287,149	315,616
Current assets			
Inventories		**111**	7,434
Accounts receivable	*15*	**1,233**	1,656
Prepayments and other receivables		**11,921**	2,600
Amount due from an associate		**24,217**	4,773
Amount due from a related company		**20,358**	1
Bank balances and cash		**234,096**	206,320
		291,936	222,784
Assets of Chinese medicine business classified as held for sale		**45,208**	–
		337,144	222,784
Current liabilities			
Accounts payable	*16*	**–**	5,474
Other payables and accruals		**11,482**	51,430
Deposit received		**371**	11,182
Amount due to a related company		**–**	734
Convertible notes	*17*	**–**	51,027
Other borrowings		**1,414**	1,414
		13,267	121,261

	Notes	As at 30 June 2007 (Unaudited) HK$'000	As at 31 December 2006 (Audited) HK$'000
Liabilities of Chinese medicine business associated with assets classified as held for sale		**30,157**	–
		43,424	121,261
Net current assets		**293,720**	101,523
Total assets less current liabilities		**580,869**	417,139
Non-current liabilities			
Other borrowings		**–**	2,115
Net assets		**580,869**	415,024
EQUITY			
Share capital	*18*	**16,017**	13,908
Reserves		**536,625**	371,321
		552,642	385,229
Minority interests		**28,227**	29,795
Total equity		**580,869**	415,024

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended	**Attributable to shareholders of the Company**									
	Share capital	**Employee share-based compensation reserve**	**Share premium account**	**Contributed surplus**	**Statutory Reserve**	**Convertible notes reserve**	**Exchange fluctuation reserve**	**Accumulated losses**	**Minority Interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As of 1 January 2007	13,908	20,076	547,052	33,474	1,522	16,492	215	(247,510)	29,795	415,024
Exchange difference arising on translation of overseas subsidiaries	–	–	–	–	–	–	5,604	–	152	5,756
Shares issued on conversion of convertible notes	1,052	–	66,467	–	–	(16,492)	–	–	–	51,027
Employee share option scheme – value of employee services	1,057	(23,457)	141,938	–	–	–	–	–	–	119,538
Recognition of share-based payments	–	29,253	–	–	–	–	–	–	–	–
Net loss for the period	–	–	–	–	–	–	–	(38,009)	(1,720)	(39,729)
As of 30 June 2007	**16,017**	**25,872**	**755,457**	**33,474**	**1,522**	**–**	**5,819**	**285,519**	**28,227**	**580,869**

For the six months ended	Attributable to shareholders of the Company									
	Share capital	Employee share-based compensation reserve	Share premium account	Contributed surplus	Statutory surplus reserve	Enterprise development fund	Exchange fluctuation reserve	Accumulated losses	Minority Interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As of 1 January 2006	6,367	3,971	109,885	33,474	983	491	(135)	(138,856)	9,256	25,436
Issue of new share	1,243	–	27,974	–	–	–	–	–	–	29,217
Share issue expense	–	–	(584)	–	–	–	–	–	–	(584)
Exchange difference	–	–	–	–	–	–	(3)	–	–	(3)
Net loss for the period	–	–	–	–	–	–	–	(23,306)	(1,809)	(25,115)
As of 30 June 2006	7,610	3,971	137,275	33,474	983	491	(138)	(162,162)	7,447	28,951

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(86,436)**	(9,917)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(5,084)**	(107)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**119,538**	8,090
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**28,018**	(1,934)
EFFECT OF CHANGE IN FOREIGN EXCHANGE RATE	**1,854**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**206,320**	4,792
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**236,192**	2,858
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash		
– Continuing operation	**234,096**	2,858
– Discontinuing operation	**2,096**	–
	236,192	2,858

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

2. ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006. The condensed interim financial statements should be read in conjunction with the Company's 2006 annual report.

In the six months ended 30 June 2007, the Group has adopted a number of new and revised HKFRSs issued by HKICPA, which are relevant to the Group's operations and are effective for accounting periods beginning on or after 1 January 2007. The adoption of these HKFRSs did not result in substantial changes to the Group's accounting policies.

At the date of this report, the following HKFRSs which are relevant to the Group's operations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKFRS 8	Operating Segments	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC)-Int 12	Service Concession Arrangements	1 January 2008

The directors anticipate that the adoption of these HKFRSs in future periods will have no material impact on the financial statements of the Group.

3. CRITICAL ACCOUNTING 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 exist, 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 at least annually whether goodwill has suffered any impairment. 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 period ended 30 June 2006, all the revenue and assets for the Group were derived from the manufacture, trading and contracting of Chinese Medicine Products in the PRC. Accordingly, no analysis by business or by geographical segment is provided for the said period. During the six months ended 30 June 2007, the turnover and operating profit of the Group were derived from the following two business segments:

- manufacturing, trading and contracting of Chinese medicine products; and

- tele-media support services in the PRC.

During the Relevant Periods, 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 presents revenue, results and certain assets, liabilities and expenditures information for the Group's business segments for the six months ended 30 June 2007:

For the six months ended 30 June 2007	Continuing operation Tele-media service HK$'000	Discontinuing operation Manufacturing, trading and contracting of Chinese medicine products HK$'000	Consolidated HK$'000
Segment revenue:			
Turnover	44,221	6,386	50,607
Segment results	10,502	(4,788)	5,714
Unallocated corporate expenses:			
Cost of share based payment in respect of granting of share options			(29,253)
Other			(16,223)
Loss from operating activities			(39,762)
Finance costs			–
Share of results of an associate			34
Loss for the year			(39,728)
Assets:			
Segment assets	208,167	45,208	253,375
Unallocated corporate assets			370,918
Consolidated total assets			624,293
Liabilities:			
Segment liabilities	2,984	30,157	33,141
Unallocated corporate liabilities			10,283
Consolidated total liabilities			43,424
Other information:			
Allowance for doubtful debts	–	364	364
Capital expenditure	6,475	275	6,750
Depreciation	426	637	1,063
Amortisation of intangible assets	–	2,165	2,165
Impairment of goodwill	–	–	–
Imputed interest on Consideration Convertible Note	–	–	–
Share-based payment expenses	–	–	29,253

5. FINANCE COSTS

Finance costs comprise the following:

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
From continuing operation		
Interest on bank loans, overdrafts and other borrowings wholly payable within five years	**–**	170
	–	170
From discontinuing operation		
Interest on bank loans, overdrafts and other borrowings wholly payable within five years	**12**	–

6. LOSS BEFORE TAX

Loss before tax is arrived at after charging/(crediting) the followings:

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
From continuing operation		
Turnover		
Service fee income	**(44,221)**	–
Other revenue		
Interest income	**(1,624)**	–
Other income	**(111)**	(5)
	(1,735)	(5)
Total revenue	**(45,956)**	(5)
From discontinuing operation		
Turnover		
Sales of medicines	**(6,386)**	(7,540)
Other revenue		
Interest income	**(8)**	(16)
Total revenue	**(6,394)**	(7,556)

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**3,237**	3,966
Provision against inventories	**12**	–
Amortisation of Chinese medicine intellectual property and know	**2,165**	2,052
Depreciation	**1,063**	703
Loss on disposal of property, plant and equipment	**44**	40
Provision for doubtful debts	**364**	–
Auditor's remuneration	**940**	–
Net foreign exchange loss	**4,342**	–
Staff costs (excluding directors' remuneration)		
Salaries and wages	**3,816**	2,037
Pension fund contributions	**522**	–
	4,338	2,037

7. TAXATION

No provision has been made as the Group sustained tax losses during the six months ended 30 June 2006 and 2007. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. DISCONTINUING OPERATION

On 22 June and 13 September 2007, the Company's indirect 94% subsidiary, Star Wisdom Investments Limited ("Star Wisdom") entered into an agreement and a supplemental agreement respectively with 中國藥材集團公司 (China National Group Corp. of Traditional and Herbal Medicine) ("China National Medicine") whereby Star Wisdom agreed to sell and China National Medicine agreed to purchase Star Wisdom's entire 60% interest in Huayi Pharmaceutical Company Limited ("Huayi") at a consideration of RMB26,000,000 (approximately HK$26,725,000). Currently, Huayi is owned as to 60% by Star Wisdom and 40% by 華禾藥業股份有限公司 ("Huahe"), a subsidiary of China National Medicine. The disposal is subject to approval by shareholders.

The losses for the Relevant Periods from the discontinuing operation are analysed as follows:

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Losses of Chinese medicine business for the periods	**(4,788)**	(16,567)

9. LOSS PER SHARE

The calculation of basic loss per share from continuing and discontinuing operations attributable to equity holders of the Company is based on the net loss for the period of HK$38,009,000 (Six months ended 30 June 2006: HK$23,306,000) and net loss from continuing operation of HK$34,928,000 (Six months ended 30 June 2006: HK$8,548,000) and the weighted average of 1,511,916,091 (six months ended 30 June 2006: 734,878,242) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2006 and 30 June 2007 have not been shown as they would have an anti-dilutive effect on the basic loss per share for both periods.

10. DIVIDENDS

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

	30 June	31 December
	2007	2006
	HK$'000	*HK$'000*
Net book value at beginning of period/year	**6,723**	6,604
Additions	**6,750**	1,374
Disposals	**(188)**	(121)
Depreciation	**(1,063)**	(1,504)
Depreciation write back on disposal	**110**	80
Exchange adjustments	**147**	215
Net book value for held-for-sale assets	**(5,210)**	–
Net book value at end of period/year	**7,269**	6,648

12. INTANGIBLE ASSETS

	30 June 2007 *HK$'000*	31 December 2006 *HK$'000*
Balance at beginning of period/year	**22,920**	26,300
Amortisation for the period/year	**(2,165)**	(4,236)
Exchange adjustments	**781**	856
Reclassified as held for sale	**(21,536)**	–
Balance at end of period/year	**–**	22,920

13. INTEREST IN AN ASSOCIATE

	30 June 2007 *HK$'000*	31 December 2006 *HK$'000*
Share of net assets	**94**	57
Goodwill	**47,994**	47,994
	48,088	48,051

Particulars of the Group's associate are as follows:

		Proportion of ownership		
Name of company	**Place of incorporation and operation**	**Ownership interest**	**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:

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
Total assets	**22,872**	5,551
Total liabilities	**(22,681)**	(5,435)
Net assets	**191**	116
Group's share of the associate's net assets	**94**	57
Revenue	**22,856**	5,604
Profit for the period/year	**69**	2
Group's share of the associate's profit for the period/year	**34**	1

14. GOODWILL

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
Balance at beginning of period/year	**237,898**	37,024
Acquisition of subsidiaries	**–**	231,792
Impairment loss recognised in the period/year	**–**	(30,918)
Reclassified as held for sale	**(6,106)**	–
Balance at end of period/year	**231,792**	237,898

15. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable based on payment due date and net of provisions is as follows:

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
Within 1 month	**1,499**	–
2 to 3 months	**286**	40
4 to 6 months	**357**	199
7 to 12 months	**751**	931
Over 1 year	**344**	486
Reclassified as held for sale	**(2,004)**	–
	1,233	1,656

16. ACCOUNTS PAYABLE

An aging analysis of accounts payable based on payment due date is as follows:

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
Within 1 month	**261**	3,446
2 to 3 months	**9**	553
4 to 6 months	**131**	–
7 to 12 months	**514**	1,072
Over 1 year	**434**	403
Reclassified as held for sale	**(1,349)**	–
	–	5,474

17. CONVERTIBLE NOTES

As reported in the Company's circular dated 18 August 2006, pursuant to the Sale and Purchase 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, was included in shareholders' equity as capital reserve.

On 4 January 2007, 105,267,376 shares were issued in conversion of the Consideration Convertible Note at the Conversion price of HK$0.63 per share (par value of HK$0.01).

18. SHARE CAPITAL

Share capital

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
1,601,739,049 (31 December 2006: 1,390,756,673) ordinary shares of HK$0.01 each	**16,017**	13,908

Share options

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.

On 8 March 2007, a total of 150,435,000 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$1.83 per share. The options may be exercisable during the period from 26 March 2007 to 25 March 2010.

19. RELATED PARTY AND CONNECTED TRANSACTIONS

Set out below are the related party transactions disclosed in accordance with HKAS 24 which also constituted connected transactions under the Listing Rules.

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Purchase of raw materials/herbs from China National Medicine	**568**	2,580
Rental expenses paid to Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre	**314**	337
Rental expenses paid to related company – Sun View Company Limited	**180**	540
Share of office services from a related company – WorldVest Capital Limited	**43**	258
Consultancy fee income earned from the associate, TMD1	**21,634**	–
Consultancy fee income earned from a related company, Vodone Telemedia Co., Ltd. ("VODONE")	**20,708**	–
Service fee charged by VODONE	**25**	–

20. OPERATING LEASE ARRANGEMENTS

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases	**1,884**	287

	30 June	31 December
	2007	2006
	HK$'000	*HK$'000*
Total future minimum lease payments under non-cancellable operating leases in respect of its land and buildings falling due:		
Within one year	**7,471**	4,323
In the second to fifth years, inclusive	**–**	6,219
	7,471	10,542

21. CAPITAL COMMITMENTS

As at 30 June 2007, the Group had no material capital commitments contracted but not provided for except for the commitment in respect of the acquisition of investment of approximately HK$20,907,000 as detailed in note 22 below. Upon completion of the disposal of the equity interest in Huayi as detailed in note 8 above, the said commitment will be released.

22. CONTINGENT LIABILITIES

The contingent liabilities represent an unresolved matter carried forward in the accounts since 2003. 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 30 June 2007, partial payments of approximately HK$53,759,000 (2006: HK$20,247,000) have been made in prior years and the remaining consideration was approximately HK$20,907,000 (2006: HK$20,247,000).

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. Upon completion of the disposal of the equity interest in Huayi, as detailed in note 8, the contingent liabilities will be released.

23. FINANCIAL RISK MANAGEMENT

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.

(a) *Credit risk*

The Group has no significant concentrations 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.

(b) *Foreign exchange risk*

The Group mainly operates in the PRC and has no significant exposure to any specific foreign currency other than Renminbi.

(c) *Liquidity risk*

The Group's policy is to regularly monitor current and expected liquidity requirements and where applicable, 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.

(d) *Fair value and cash flow interest rate risk*

The Group has no interest-bearing assets or long term borrowings as at 30 June 2007. Its income and operating cash flows are substantially independent of changes in market interest rates.

Fair value estimation

The carrying amount 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.

24. SUBSEQUENT EVENTS

(a) On 9 July 2007, the Company entered into Note Subscription Agreements with six independent third parties in relation to the subscription of the convertible notes with an aggregate principal amount of HK$410,000,000. The convertible notes carry a coupon interest rate of 1.5% per annum and will mature on the second anniversary from the date of issue. The initial conversion price is HK$4.10 per share, subject to usual anti-dilution adjustments in certain events. The subscription of the Notes was completed on 23 July 2007.

(b) On 17 August 2007, a total of 50,000,000 share options were 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$1.87 per share. The options may be exercisable during the period from 1 September 2007 to 31 August 2010.

25. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were reviewed by the audit committee and approved and authorised for issue by the board of directors on 21 September 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the period, the Company changed its name to VODone Limited to better reflect the Group's increased focus in the tele-media service business in the PRC.

The key income model of the Group's tele-media service business is advertising income and fees derived from VOD BUS, pay-per-view and value added services. Since the official launch of the VOD BUS in late February 2007, the positive responses from the internet industry as well as from international and domestic advertisers have been remarkable. Significant revenue contributions to the Group started in March of 2007 with drastic month-to-month increases in the Web Union membership. By the end of June 2007, membership had already increased to 3,000 and page views per day reached over 12 million. This growth directly translates to new sources of revenue for the Group.

Turnover of the Group for the six months ended 30 June 2007 was HK$50,607,000, a significant increase of approximately 571% from HK$7,540,000 for the corresponding period of last year. Of the total turnover, approximately 87.4%, or approximately HK$44,221,000, was attributable to the new tele-media service business while approximately 12.6%, or approximately HK$6,386,000, was generated from the Chinese medicine business. (HK$ nil and HK$7,540,000 respectively for the corresponding period of last year).

Loss attributable to shareholders for the period amounted to approximately HK$38,009,000 (approximately HK$23,306,000 for the corresponding period of last year). The loss for the period included a non-cash charge of approximately HK$29,253,000, being corporate overhead cost relating to the recognition of share-based payments to eligible grantees in connection with the share options scheme of the Company, the details of which are included in this report. The loss for the period was primarily the result of higher corporate overhead due to share options and the loss from the Chinese medicine business which is in the process of being divested.

Operating environment

The China economy enjoyed an excellent performance relative to other major economies recording over 10% GDP growth in 2006 with the momentum continuing into the first half of 2007. The strong China economy is supported by rising disposable income in both the urban and rural areas. Fueled by huge domestic demand and the quest for knowledge and information, growth in broadband and mobile phone subscribers remains strong. At present, there are about 500 million mobile phone users and 100 million broadband users in the PRC. In the last few years, the number of consumers that shop on-line and browse the internet for entertainment has increased exponentially. Meanwhile, a growing number of citizens have focused their attention on investing through online investment vehicles such as internet brokerage. It is estimated that there are at present 100 million stock investors, 100 million soccer viewers, and 100 million welfare lottery players that will directly benefit from the superior service that VODONE provides.

Under the current regulatory environment, only a limited number of portal operators are legally permitted to broadcast multi-media contents on the Internet. This allows for a significant advantage to the businesses that have secured the appropriate licenses required to operate in the new media segment. By associating with its PRC business partner – VODONE TELEMEDIA ("VODONE"), the Group enjoys a leading edge that will allow it to further exploit the multi-media service market.

The Group's multi-media service business supports the broadcasting and distribution of news, financial information, entertainment, sports, educational contents and additional topics of interest. Video Ads, which the Group is positioned to deliver, is a pro-active and more effective alternative to conventional TV commercials and is quickly gaining popularity and acceptance. The Group will capitalize on this trend by carefully directing the content aggregation and distribution power of the VODONE video broadcasting portal to provide superior service to satisfy the dynamic customer preferences while serving the needs of advertisers by empowering them to reach specific targeted audiences.

Tele-media service business

The convergence of broadcasting and tele-communications provides significant business development potential. The Group began to engage in the tele-media service business in December of 2006, following the Group's acquisition of Clear Concept a few months earlier as documented in the Company 2006 annual report.

During the period under review, revenues from the tele-media service business, in the form of service fees income, reached approximately HK$44,221,000 (HK$ nil for the corresponding period of last year), comprising 87.4% of the turnover of the Group. The revenues reflect the successful commercialization and roll out of the "VOD BUS" business plan and the emerging trend of on-line video advertising.

Although the tele-media service business is a more recent endeavour for Group, it has already achieved positive segment results of approximately HK$10,502,000 for the first six months of 2007, before unallocated corporate expenses. (HK$ nil for the same period of last year).

VOD BUS, the Group's new initiative on "broadcasting union system" in the PRC broadband space, generates new media advertising revenues for the Group by strategically inserting video Ads to the free video contents broadcast over the VODONE portal that the Group is contracted to support. Page views of all the participating members are aggregated, which translates to Ad revenues and a portion of that is shared with participating union partners. At present, annual Ad spending in China is estimated to be approximately Rmb380,000 million, of which conventional TV commercials account for about Rmb320,000 million. New media video Ads, broadcast on the Internet as opposed to the static banner type advertising, is widely expected to "cannibalize" conventional TV commercials as it is a more effective and less costly Ad medium which can be precisely targeted to specific client consumers. The Group is well positioned to benefit significantly from the conversion of TV commercial Ad revenue to new media advertising as cooperative joint web delivery platforms such as the VOD BUS are established.

During the period, the Group collaborated with many leading strategic partners and supported the establishment of several video broadcasting channels on the VODONE video portal. For example, the Group successfully launched the "Lottery Club" website and the legal purchasing of welfare lottery tickets through this medium in China has become a reality. Meanwhile, the Group's on-line English language video education platform has been developed and will be launched in the third quarter of 2007. The revenue from these new innovative channels coupled with the agency fees derived from lottery ticket sales are expected to contribute to the Group starting in the second half of this year.

During the period, The VODONE video portal has engaged in broadcasting multi-faceted contents including news, finance, sports, entertainment, education, life-style and other info-tainment contents which were often provided free of charge to consumers. As a result of upgrading and enriching the variety contents offered, the hit rates for the VODONE portal and those collectively from the VOD BUS have surged dramatically. The Group expects to generate additional interest and revenue through pay-per-view programs as well as other value added services ("VAS").

Chinese medicine business

During the period under review, management carefully evaluated the prospects of the Chinese medicine business and on 22 June 2006 entered into a conditional agreement to dispose of the entire Chinese medicine business after years of successive losses.

Sales of Chinese medicines during the period were mainly derived from two products and recorded approximately HK$6,386,000 in sales for the first half of the year as compared to approximately HK$7,540,000 for the same period of last year, a decline of 15.3%. The level of sales was impacted in part by Huayi's inability to break into and maintain sales in other geographical areas. During the period, Huayi continued to operate as a self-sustaining joint venture, however, it was clear that a revitalization of the Chinese medicine business would require a significant infusion of capital and as a result of this conclusion, management made the decision to dispose of the Chinese medicine business and salvage the residual value. As a result of the signing of the disposal agreement in June 2007, the Chinese medicine business was reclassified and presented as assets held for sale in the consolidated balance sheet and as discontinuing operation in the consolidated income statement for the period ended 30 June 2007.

Liquidity and financial resources

The liquidity and financial resources of the Group is strong relative to the preceding years following the successful subscription and placement of shares that brought in gross proceeds of HK$240 million shortly before the end of 2006.

As at 30 June 2007, the Group's current ratio (being the ratio of total current assets to total current liabilities) was 7.76, a significant improvement from the 2006 year-end level of 1.84. Debt to equity ratio and gearing ratio (being the ratio of interest bearing bank loans and other borrowings to shareholders' equity) were 0.004 and 0.01 respectively (as at 31 December 2006 – 0.01 and 0.01 respectively).

During the period under review, investments in fixed assets by the TMD service companies were in their initial stages and amounted to approximately HK$6,750,000. Capital expenditures only commenced after the TMD service companies were established and had become fully capitalized in the first quarter.

As at 30 June 2007, the Group's cash and cash equivalent reached approximately HK$236,192,000 as compared to that of approximately HK$206,320,000 at the end of last year. The continued improvement primarily reflects significant cash contribution from the exercise of options under the share options scheme of the Company (refer to Capital Structure and Gearing section below) net of funds used in operations during the period. The Group did not have any bank borrowings as at 30 June 2007. Subsequent to the period end, the Company issued HK$410,000,000 convertible notes with a coupon interest rate of 1.5% per annum to mature in two years. The convertible notes carry the rights to convert into shares of the Company at a conversion price of HK$4.10 per share subject to adjustment(s).

The Directors are of the view that, taking into account the financial resources available to the Group, the Group will have sufficient working capital for its present requirements.

Pledge of assets and corporate guarantees

As of 30 June 2007, the Group does not have any contingencies relating to pledge of assets and corporate guarantees provided by the Company for credit facilities granted to its subsidiaries.

Capital structure and gearing

As at 30 June 2007, there were 1,601,700,000 shares issued and outstanding and the shareholders' equity of the Group amounted to approximately HK$552,642,000. Due to the conversion of the Consideration Shares associated with the Clear Concept acquisition and the exercise of share options, the capital structure of the Company has increased during the period by 105,267,376 and 105,715,000 new shares respectively adding a total of approximately HK$2,109,000 to the shareholders' equity. As at 30 June 2007, the overall gearing ratio (being the ratio of total liabilities to shareholders' equity) of the Group was improved to approximately 7.85% as compared with 32.03% at the end of last year.

Prospects

The Group continues to view China as fertile ground for exceptional investment and business opportunities for decades to come. Led by the Group's solid business model and increasing consumer demand, the potential opportunity for satisfying consumers' info-tainment needs in the new media market is immense. Under the current regulatory environment as explained in the Operating Environment section above, the Group's association with VODONE gives the Group a first mover advantage that will allow it to further exploit this niche market.

The Group anticipates that the new media market will gain popularity particularly in the upscale segment as it offers personalized selection under the concept of any video, any place, any time. New media in China is expected to grow at a fast pace due to its more dynamic, interactive qualities. Its growth is supported by the expanding population of broadband consumers and of users of powerful mobile phones in China. To capture this market segment, the Group will initially concentrate on developing three areas that have the potential to bring significant results: video Ads, pay-per-view and VAS revenues. It is expected that the VOD BUS will continue to grow at a rapid pace promoted by the VODONE brand and the pre-Olympic Ad spend. New internet based pay-per-view channels, a few of which have been cultivated in collaboration with international high-caliber strategic partners such as Goal TV, Linguaphone and others to be announced, are expected to come on line in the VODONE video portal in the fall, generating new sources of revenues. By further enriching the VODONE portal, fees from VAS and agency income are also expected to become a significant source of revenues.

The Directors are of the view that the tele-media service business is in its early stages of development and has tremendous growth opportunities on the horizon. Considering that there are already over 500 million mobile phone users, 100 million broadband surfers, 100 million stock investors, 100 million soccer viewers, and 100 million welfare lottery players, all of whom can be effectively served on the VODONE video broadcasting portal, the prospect is exciting. With the support and funding from the international capital market, the Group is well positioned to march forward and exert its creative influence in China. The Directors are confident that new and profitable business opportunities can further be developed which may offer significant long term potential.

Human resources and remuneration policy

To aggressively develop the new tele-media service business, the Group has dedicated significant resources to building a professional and experienced management team with a vision to change the landscape of the new media industry in China. Management of the Group has made significant strides during the period by teaming up with a number of strategic partners for business development. The new business development team includes the appointments of the Chief Operating Officer, Ms. Wang Chun, who has been involved in internet B2B and B2C business as early as 1998 and is accredited as a pioneer and influential person in the internet industry. Other senior management includes the appointment of the Chief Technology Officer, Technical Support, Web Superintendent and Vice-Superintendent, Editor, Channel Superintendent. As at 30 June 2007, there were approximately 150 management, administrative, production and selling staff located in Hong Kong and the PRC inclusive of the Chinese medicine business. The Company has adopted an employee share option scheme and housing benefits were provided for certain Hong Kong and PRC employees. Salaries of employees were determined taking into account job performance and professional experience of the employees concerned and the general practice within the industry. Since December 2000, all employees and directors in Hong Kong Special Administrative Region have joined the mandatory provident fund scheme implemented by the Hong Kong Special Administrative Region.

During the period, the Group's human resources in the tele-media service business have strengthened significantly with the addition of several high-caliber, seasoned employees who have the experience and vision to further develop the new media industry. The staff profile includes: doctoral and master – 15%; bachelor degree – 80%; post-secondary and others – 5%. Due to the addition of a large number of new staff who possesses post secondary education which is further complimented by staff with relevant technical and media experience from well known media enterprises, and the desired mix of returning overseas and foreign staff, the management of the Group has become more professional, international and effective. The Group's depth in human resources and industry knowledge will secure its long term competitiveness and promote the achievement of positive results in the new media business.

AUDIT AND BOARD COMMITTEES

The Board has established the audit committee in compliance with Rule 3.21 of the Listing Rules. The audit committee was set up for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the independent non-executive directors of the Company and has reviewed, together with the management, the accounting policies and practice adopted by the Group and the financial statements of the unaudited condensed consolidated interim results of the Group for the six month ended 30 June 2007. The Board has yet to delegate the nomination and the remuneration functions to a committee of the Board as discussed in the Company's 2006 Annual Report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the date of this report, the interests and short position of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in Shares

Long position:

Name of Director	Capacity	Number of Shares	Approximate percentage to the issued share capital of the Company
Zhang Lijun	Personal	331,867,376	20.50%
Wang Chun*	Personal	8,700,000	0.54%
Lu Xing	Personal	6,090,000	0.38%
Wu Fred Fong	Personal	26,350,000	1.63%
Yu Jianmeng	Personal	3,600,000	0.22%
Loke Yu alias Loke Hoi Lam#	Personal	20,000	0.00%

(b) Interests in share options granted

Name of Director	Outstanding Underlying Shares granted pursuant to the share options	Approximate percentage to the issued share capital of the Company	Exercise price per share *HK$*	Date of grant	Exercise period
Zhang Lijun	7,000,000	0.43%	1.83	8/3/2007	26/3/2007–25/3/2010
	1,520,000	0.09%	1.87	17/8/2007	1/9/2007–31/8/2010
Wang Chun*	3,600,000	0.47%	0.85	19/7/2006	1/8/2006–31/7/2009
	6,600,000	0.41%	1.83	8/3/2007	26/3/2007–25/3/2010
	1,520,000	0.09%	1.87	17/8/2007	1/9/2007–31/8/2010
Lu Xing	4,600,000	0.28%	1.83	8/3/2007	26/3/2007–25/3/2010
	1,500,000	0.09%	1.87	17/8/2007	1/9/2007–31/8/2010
Wu Fred Fong	3,150,000	0.19%	1.87	17/8/2007	1/9/2007–31/8/2010
Yu Jianmeng	500,000	0.03%	1.87	17/8/2007	1/9/2007–31/8/2010

Name of Director	Outstanding Underlying Shares granted pursuant to the share options	Approximate percentage to the issued share capital of the Company	Exercise price per share *HK$*	Date of grant	Exercise period
Loke Yu alias Loke Hoi Lam#	755,000	0.05%	1.83	8/3/2007	26/3/2007–25/3/2010
	765,000	0.05%	1.87	17/8/2007	1/9/2007–31/8/2010
Wang Zhichen#	750,000	0.01%	1.87	17/8/2007	1/9/2007–31/8/2010
Wang Linan#	750,000	0.01%	1.87	17/8/2007	1/9/2007–31/8/2010

* *The spouse of Dr. Zhang*

Independent non-executive Director

Save as disclosed above, as at the date of this report, none of the Directors and the chief executive of the Company hold any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or (b) were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, save as disclosed below and other than the directors and chief executive of the Company and the companies controlled by them whose interests are disclosed above, the Company was not aware of any shareholder had any interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company under section 336 of SFO.

As at the date of this report, so far as was known to the Directors or the chief executive of the Company, the following person, (other than a Director or chief executive of the Company), had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position:

Name of shareholder	Capacity	Number of Shares	Approximate percentage to the issued share capital of the Company as at the Latest Practicable Date
Penta Investment Adviser, Ltd.	Corporate	103,954,000	6.83

CODE OF CORPORATE GOVERNANCE PRACTICES

Save for the deviations as reported and discussed in the Corporate Governance Report as contained in the Company's 2006 Annual Report, none of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the period for the six months ended 30 June 2007, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-Laws of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules during the period for the six months ended 30 June 2007. Having made specific enquiry of all directors, each of whom has confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by the directors.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2007.

On behalf of the Board of Directors of
VODone Limited
Dr. Zhang Lijum
Chairman

Hong Kong
21 September 2007