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VODONE.com

# VODONE LIMITED

(Incorporated in Bermuda with limited libility)

Stock code: 82

CHINA'S BIGGEST INTERNET VIDEO BROADCASTING UNION SYSTEM

VODone.com

# Annual Report 2007

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Chairman**

Dr. Zhang Lijun

**Executive director**

Ms. Wang Chun

**Independent non-executive directors**

Dr. Loke Yu alias Loke Hoi Lam
Mr. Wang Zhichen
Mr. Wang Linan

## COMPANY SECRETARY

Mr. Yan Man Sing, Frankie

## QUALIFIED ACCOUNTANT

Mr. Ma Yiu Ho, Peter

## AUDITORS

Shu Lun Pan Horwath Hong Kong CPA Limited

## LEGAL ADVISORS

Jones Day

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
The Bank of East 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
Tesbury Centre
28 Queen's Road East
Hong Kong

## REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

## PRINCIPAL PLACE OF BUSINESS

Floor 19, No. 66, Di San Ji Tower
North Four Ring West Road
Haidan District, Beijing
PRC 100080

Room 3006, 30th Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

## WEBSITES AND E-MAIL ADDRESS

http://ir.vodone.com
www.finance.thestandard.com.hk/en/0082vodone/
ir@vodone.com, info@vodone.com.hk

## STOCK CODE

Main Board of the Stock Exchange of Hong Kong Limited
– Stock Code: 82

# CHAIRMAN'S STATEMENT

**Zhang Lijun**
*Chairman*

Dear Shareholders,

I am pleased to report to you the achievements and developments of the Company for the year ended 31 December 2007. The Company continues to engage in a strategic partnership with VODone Telemedia (Vodone Telemedia Company Limited), a PRC state-owned company which has obtained a portfolio of licenses for the production and broadcasting of media contents over broadband Internet, fixed lines phones, mobile phones and other digital terminals.

## FOCUS ON THE TELE-MEDIA SERVICE BUSINESS

After the completion of raising capital in 2007, VODONE focused resources on a few main projects, with VODone BUS being the core operation.

VODone Broadcasting Union System (VODone BUS) was established in August 2007. It is an integrated online broadcasting system and advertising distribution platform. VODone BUS places media players on affiliate websites (web union members). VODone Telemedia has also entered into agreements with AC Nielsen and DoubleClick to utilize their technology and expertise in video streaming and website browsing statistics of different user groups. VODone BUS was upgraded twice in January 2008, to enhance the efficiency and effectiveness of it. These helped lay a solid foundation for a rise in page views and the volume of advertisements.

Since March 2007, VODONE launched a large scale advertising campaign for brand building across the PRC through magazines, billboards and newspapers etc. In September 2007, VODONE became the official new media partner of the 2008 Beijing Olympic Games and in October 2007, signed an agreement with the China Anhui TV station to remake a Chinese classic fiction turned TV series – The Water Margin, together with a casting polling show. The much enhanced brand profile will increase web traffic and page view, which in turn, promote our core internet advertising business.

In 2007, VODONE also developed on the *www.vodone.com* portal website by entering into agreements and partnerships with various companies and organisations. These include Xinhua News Agency, Reuters, ET Net, Linguaphone, GOALTV, MSN China, CNCMAX, China Family Planning Association, and the Chinese Psychological Society. These all provided content and information to VODONE which enabled it to launch the "Seven Channels" in September 2007. The Seven Channels provide news, finance, sports, lottery, music, video and English contents. After some adjustments and restructuring, and shifting focus to the VODone BUS platform, the Seven Channels have all been incorporated into VODone LIVE. VODone LIVE's focus is on live (real-time) video broadcasts and providing content in video format, at the same time placing advertisements into them, transforming them into revenue making units as well.

The VODone BUS advertising platform has been well received by the market as a result of the agreements made with DoubleClick and iResearch. To further gain awareness of this partnership, VODONE organised a large scale event at the DiaoyuTai State Guest House in December 2007, to promote its products and services VODONE offered. Over three hundred companies and advertising agencies attended this event, and showed immense interest. The overwhelming response was undoubtedly a significant encouragement for VODONE.

# CHAIRMAN'S STATEMENT

## SOLID FINANCIAL STRENGTH

In August 2007, the Company successfully issued convertible bonds which amounted to HK$410 million with subscribers coming from international houses. This strengthened the financial background of VODONE, making it one of the giant Internet media companies in the PRC. In February 2008, the daily page views of VODONE and its web union exceeded 100 million, making it the largest video advertising platform in terms of page views, in the PRC.

## DISPOSAL OF THE CHINESE PHARMACEUTICAL BUSINESS

To focus on the tele-media service business, the Board decided to dispose of the Chinese Pharmaceutical Business. The completion of the disposal in October 2007 marked the beginning of a new era for the Group. The Board and the management team were also restructured with new members introduced to the team. The new management team members are experts in the Internet industry, which strengthened the Group to become a tele-media company.

## OUTLOOK

The Ministry of Information Industry of the People's Republic of China ("MII") recently promulgated a new regulation which required a complete set of licenses in order to conduct online video streaming and broadcasting on the Internet in the PRC. Through its strategic partner, VODone Telemedia, VODONE becomes one of the very few companies in the PRC holding all these licenses. With this competitive advantage, the operating environment is highly favourable to VODONE.

As a pioneer in the online video advertising industry and its strong alliance with web union members, VODONE currently owns and operates 15 million media players in 40,000 PRC websites. The ever increasing page views and the growing number of individual Internet Protocols also enabled VODONE to be a leading player in the online video broadcasting and advertising industry.

VODONE has partnered with Anhui TV Station in the remake of the Water Margin, together with an integrated entertainment show "An Assembly of Water Margin Heroes" ("水滸英雄會") and a casting polling show "I Love Water Margin" ("我醉水滸"). These video shows would be broadcasted on *www.vodone.com* and its affiliate websites. The shows will enhance the popularity of the VODONE brand, which in turn, would generate a higher advertising revenue.

2008 is the year of the Beijing Olympics. As the official new media partner of the 2008 Beijing International Media Center, VODONE will provide non-registered reporters with up-to-date Olympic game result and event information. The Company will capitalize on this opportunity to enhance its brand awareness and draw more revenue through various forms of advertising in the Media Center.

On behalf of the management, I would like to express my heartfelt gratitude for all stakeholders' continuing support, patience and trust. I would also like to thank our dedicated staff members for their commitment in making a difference in one of the most exciting industries in the PRC.

We will continue to expand and become a prominent player in the market. While the Company has completed its business transformation, it is well positioned to benefit from our solid foundation in the tele-media business, so as to bring returns to our shareholders. I passionately look forward to sharing the fruitful rewards with all of you in the future.

WE ARE READY!

**Dr. Zhang Lijun**
*Chairman*

18 April 2008

# DIRECTORS' REPORT

The directors herein present their report together with the corporate governance report, management's discussion and analysis and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Since late 2006, the Company entered into the tele-media service business in the People's Republic of China (the "PRC") through the acquisition of Clear Concept International Limited ("Clear Concept") and the subsequent establishment of certain operational subsidiaries in the PRC (refer to Subsidiaries section in note 21 to the financial statements).

## RESULTS AND DIVIDENDS

The Group's net loss attributable to shareholders for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 91.

## SEGMENT INFORMATION

The segment information of the Group for the year ended 31 December 2007 is set out in note 5 to the financial statements.

## FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 92. This summary is for information only and does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 16 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with explanations thereof, are set out in notes 30 and 36 respectively to the financial statements.

## PRE-EMPTIVE RIGHTS

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

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

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 and page 29 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for distribution in specie were nil (2006: nil). The Company's share premium account in the amount of HK$838,366,000 (2006: HK$547,052,000) may be distributed in the form of fully paid bonus shares.

## MAJOR SUPPLIERS AND CUSTOMERS

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

| | | |
|---|---|---|
| (a) | Percentage of purchases attributable to: | |
| | * the largest supplier | 29.77% |
| | * the five largest suppliers | 76.19% |
| (b) | Percentage of sales attributable to: | |
| | * the largest customer | 91.01% |
| | * the five largest customers | 99.73% |

# DIRECTORS' REPORT

## MAJOR SUPPLIERS AND CUSTOMERS (continued)

The largest customer of the Group for the year was Vodone Datamedia Technology Co., Ltd. ("TMD1"). TMD1 is a sino-foreign joint-venture company and is 51% controlled by two state-owned enterprises. The Company indirectly owns a 24.99% interest in TMD1, with the balance of 24.01% indirectly held by Dr. Zhang Lijun, a substantial shareholder of the Company. Through contractual arrangements as disclosed in the Company's circular dated 18 August 2007, the Group provides tele-media support services to TMD1. Save as disclosed and as far as the directors are aware, neither the directors of the Company, their associates, nor shareholders, which to the knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest suppliers or customers.

## CHAIRMAN AND DIRECTORS

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

### Chairman

Zhang Lijun

### Executive directors:

| | |
|---|---|
| Wang Chun | |
| Guo Duen How, Tom | (resigned on 15 March 2007) |
| Kao Ying Lun | (resigned on 1 April 2007) |
| Lu Xing | (resigned on 31 January 2008) |
| Yu Jianmeng | (resigned on 31 January 2008) |
| Wu Fred Fong | (retired on 31 January 2008) |

### Independent non-executive directors:

| | |
|---|---|
| Loke Yu (alias Loke Hoi Lam) | |
| Wang Zhichen | (appointed on 22 August 2007) |
| Wang Linan | (appointed on 22 August 2007) |
| Choy Tak Ho | (retired on 28 May 2007) |
| Tsui Chun Chung, Arthur | (resigned on 7 June 2007) |

In accordance with the Company's bye-laws, all the directors, including the independent non-executive directors are subject to retirement by rotation. Mr. Wang Zhichen and Mr. Wang Linan will, in accordance with the bye-laws, retire by rotation at the forthcoming annual general meeting of the Company. Mr. Wang Zhichen and Mr. Wang Linan, being eligible to sit for re-election, intend to offer themselves for re-election at the forthcoming annual general meeting.

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

### Chairman

Dr. ZHANG Lijun, aged 45, joined the Company in July 2006 as an executive director and was elected as the Chairman in December 2006. He is the Chairman of China Asia-Pacific Economic Cooperation ("APEC") Development Council. He is recently appointed as the Vice Chairman of China Social Workers Association, Vice Chairman of China Copyright Council and Vice Chairman of China Digital Telecommunications Committee. He was the former Chairman of Sino-Interest Worldwide Economic Group and Sino-Sky Telecom. Since 1999, nominated by the leader of PRC central government, Dr. Zhang has been a committee member of the APEC Business Advisory Council ("ABAC"), an organisation established by APEC to formalise private sector participation in providing advice and feedback to APEC leaders. Dr. Zhang co-chaired the Trade liberalization and facilitation working group of ABAC in 2004 and was the co-chairman of the Technology Working Group of the ABAC in 2005 when he also participated in APEC e-Commerce Work Force. Dr. Zhang was also the Economic Adviser of West Middle China and is the visiting professor of Nankai University. Dr. Zhang holds a Doctoral degree in World Economics from Nankai University, Tianjin. He is the spouse of Ms. Wang Chun.

### Executive director

WANG Chun, aged 43, joined the Company in July 2006 as an executive director and has held senior positions in various PRC enterprises including those engaged in international trading, investment, internet operations and contents provision, telecommunications value added services and electronic commerce. She is also the Chief Executive Officer of Vodone Telemedia Co., Ltd. Ms. Wang holds a Master of Science degree in World Economics from Nankai University, Tianjin and a Bachelor's degree in Medicine from Tianjin Medical University. She is the spouse of Dr. Zhang Lijun.

# DIRECTORS' REPORT

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

### Independent non-executive directors

Dr. LOKE Yu alias LOKE Hoi Lam, aged 59, was appointed as an independent non-executive director of the Company in May 2005 and the chairman of the audit committee of the Company. He has over 35 years of experience in accounting and auditing for private and public companies; financial consultancy; and corporate management. He holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. Dr. Loke is a fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Institute of Chartered Secretaries and Administrators and a member of Malaysian Institute of Accountants. He is currently the Chairman of MHL Consulting Limited and serves as an independent non-executive director of several companies listed on the Stock Exchange of Hong Kong.

WANG Zhichen, aged 66, was appointed as an independent non-executive director of the Company in August 2007. He obtained his Bachelor's Degree in Biophysics and Agricultural Machinery from Jilin Agricultural University. He had been appointed as the vice commissioner of the Asian and African Division of the Foreign Affairs Bureau, Agricultural Department, the People's Republic of China ("PRC"), the Commissioner and vice general secretary of the China Feed Industry Association, director and vice director of the State Economic Reform Committee, Supervisor of the office of Taiwan affairs. He was also the former supervisor of the International Cooperation Centre of the Economic Reform Office and the former committee member of the State Development Reform Committee. Currently, Mr. Wang is the Director of Middle and Small Enterprise Committee and the Chairman of the Middle and Small Enterprise Work Committee of the China Asia-Pacific Economic Cooperation ("APEC") Development Council.

WANG Linan, aged 59, was appointed as an independent non-executive director of the Company in August 2007. He, graduated in Economic Management of the Central Communist Party School of Management, has more than 14 years of experiences in promotion of science in the PRC. He had worked in the China Association for Science and Technology General Office as deputy division secretary, deputy director of China Association for Science and Technology Popularisation Department City Division, and the vice general secretary of the China Scientific Popularisation Writers Association. Currently, Mr. Wang is the general secretary of the China Scientific Films and Videos Association.

### Senior Management

YUE Hong Chu, George, Chief Technology Officer, aged 35, has over 10 years' experience in software engineering and project management, with years of solid planning, implementation and management experience at various multinational firms listed on the New York Stock Exchange and Nasdaq. Mr. Yue holds a Masters degree from the Stanford University in USA, and is also a licensed Professional Engineer in Ontario, Canada. Mr. Yue joined the Company in 2008.

YAN Man Sing, Frankie, Chief Financial Officer and Company Secretary, aged 50, has over 20 years' experience in the securities, mergers and acquisitions and IPOs exercises in Hong Kong and the PRC. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Corporate Finance Committee of the Institute. He previously worked in the London and Hong Kong offices of an international auditing firm, a multinational national company listed on the New York Stock Exchange and a merchant banker of a regional financial institution in Hong Kong. Mr. Yan joined the Company in late 2007.

MA Yiu Ho, Peter, aged 43, is the Financial Controller, Qualified Accountant and Authorized Representative of the Company. He has over 20 years' experience and worked with a Singapore listed company, banking corporation and auditing firm. He is a member of the Hong Kong Institute of Certified Public Accounts and a fellow member of the Association of Chartered Certified Accountants (UK). Mr. Ma holds a Master of Business Administration Degree from the Hong Kong University of Science and Technology. Mr. Ma joined the Company in late 2007.

WANG Xiang, aged 33, is the General Manager of Finance of the Company. Ms. Wang is a Certified Public Accountant in the PRC. Before joining the Group, she has served a foreign mobile technology company for more than 5 years as a finance in-charge where she accumulated extensive corporate finance and management knowledge in telecommunication and value added service industry. Besides, having taken part in several major audits in her role as an external auditor, she has accumulated invaluable experiences which have made her an all-rounded accountant. Ms. Wang holds a Bachelor's Degree in Business Management of Beijing Normal University. She joined the Group in 2006.

PENG Xitao, aged 29, is the Chief Engineer of the Company. During his academic and professional years, Mr. Peng has concentrated on the research studies, development and establishment of security control, internet backbone and administration of internet operations. In addition, he provided solutions to clients in various aspects relating to the internet operation and interfaces. Mr. Peng joined the Group in 2006. Prior to that, he worked for VODONE and China Unicom, Beijing where he was awarded for outstanding achievement based on his contributions to the internet infrastructure establishment. Mr. Peng holds a Bachelor's Degree in Computer Communication of Posts and Computer Telecommunications and a Master's degree in Computer Applications from Nankai University.

Wang Chunyu, aged 39, a doctorate holder, joined VODone Group in July 2007 as the Chief Audio-Visual Advertising Technical Officer of TMD2. He was formerly the Technical Director of Software Operations Development Department of Peking University and the Technical Director of KUCCO.

# DIRECTORS' REPORT

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

### Senior Management (continued)

Yang Tianhua, aged 29, graduated from Tsinghua University in July 2000, with major in Computer Science & Technology. He joined VODone Group in August 2007 and worked as Deputy General Manager for the Channel Advertising Sales Department of Beijing Union Times Entertainment Culture Development Co., Ltd. He had been the Deputy Sales General Manager for the Beijing Sales Centre of Vision China Media Inc and was the Deputy General Manager of a Beijing advertising company.

Yao Yi, the Deputy Chief Editor of VODone Group since August 2007, aged 40. He graduated from School of Liberal Arts, the Renmin University of China, had been appointed by the Education Bureau as an interviewing scholars academician at the Carleton University in Canada, where he focused on news and mass media, and has been an apprentice for the finance section and website of the "Globe and Mail", the largest newspaper in Canada. He has also worked for China Huiyuan Group Limited as its Media and Public Relation Manager.

## DIRECTORS' SERVICE CONTRACTS

Both Mr. Wang Zhichen and Mr. Wang Linan proposed for re-election at the forthcoming annual general meeting have entered into a service contract with the Company for a term of one year commencing from the date of appointment.

## DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2007, the directors and their associates had the following interests in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

### (a) Long position in the ordinary shares of the Company:

| Name of director | Capacity | Number of ordinary shares held at HK$0.01 each | % of total issued share capital |
|---|---|---|---|
| Zhang Lijun | Beneficial owner/Interest of spouse | 338,467,376 (Note 1) | 20.59% |
| Wang Chun | Beneficial owner | 8,700,000 | 0.53% |
| Loke Yu (alias Loke Hoi Lam) | Beneficial owner | 80,000 | 0.005% (Note 2) |
| Lu Xing | Beneficial owner | 7,320,000 | 0.45% |
| Wu Fred Fong | Beneficial owner | 26,350,000 | 1.60% |
| Yu Jianmeng | Beneficial owner | 3,600,000 | 0.22% |

Note 1: Of these 338,467,376 shares, 329,767,376 shares are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 8,700,000 shares through the interest of his spouse, Ms. Wang Chun.

Note 2: Calculated by rounding to three decimal places.

### (b) Long position in underlying shares of the Company:

| Name of director | Capacity | Number of underlying shares in respect of the share option granted | % of total issued share capital |
|---|---|---|---|
| Loke Yu (alias Loke Hoi Lam) | Beneficial owner | 605,000 (Note 1) | 0.04% |
| Lu Xing | Beneficial owner | 2,600,000 (Note 1) | 0.16% |
| Wang Chun | Beneficial owner | 10,200,000 (Note 1) | 0.62% |
| Yu Jianmeng | Beneficial owner | 500,000 (Note 1) | 0.03% |
| Zhang Lijun | Beneficial owner/Interest of spouse | 17,200,000 (Notes 1, 2) | 1.05% |

Note 1: Details of the above share options granted by the Company are set out in note 36 to these financial statements.

Note 2: Of these 17,200,000 share options, 7,000,000 share options are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 10,200,000 share options through the interest of his spouse, Ms. Wang Chun.

# DIRECTORS' REPORT

Save as disclosed herein, as at 31 December 2007 none of the directors or the chief executive of the Company and their associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## SHARE OPTION SCHEME

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

On 8 March 2007, a total of 151,435,000 share options were granted to directors of the Group and eligible participants. The options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$1.83 per share. The options are exercisable during the period from 26 March 2007 and 25 March 2010. During the year, 71,290,000 of these share options were exercised.

On 17 August 2007, a total of 11,455,000 share options were granted to directors of the Group and eligible participants. The options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$1.87 per share. The options are exercisable during the period from 17 August 2007 and 16 August 2010. During the year, 1,000,000 of these share options were exercised and 9,955,000 share options were cancelled.

The share options granted, exercised and outstanding at 31 December 2007 were detailed in note 36 to the financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS

Except for those transactions set out in note 37 to the financial statements, no director had a beneficial interest in any material contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, save as disclosed below and other than the directors of the Company and the companies controlled by them whose interests are disclosed above, the Company was not aware of any shareholder, had any interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

### Long position in the ordinary shares of the Company

| Name of shareholder | Number of issued shares held | % of the issued share capital |
|---|---|---|
| Zhang Lijun | 338,467,376 (Note 1) | 20.59% |

Note 1: Of these 338,467,376 shares, 329,767,376 shares are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 8,700,000 shares through the interest of his spouse, Ms. Wang Chun.

# DIRECTORS' REPORT

## CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions, further details of which are included in note 37 to the financial statements. The directors believe the relevant disclosure requirement in the annual report is met.

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors and of the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements.

## CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the special general meeting held on 12 February 2007 and approved by the Registrar of Companies in Bermuda on 19 February 2007, the name of the Company has been changed from "Yanion International Holdings Limited" to "VODone Limited". The Chinese name 第一視頻集團有限公司 is for identification purpose only.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the principles of the code provisions as set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except those deviations identified in the Corporate Governance Report for 2007 which is set out under a separate heading in the said Report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## AUDIT COMMITTEE

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

## AUDITOR

On 9 October 2007, Horwath Hong Kong CPA Limited changed their name to Shu Lun Pan Horwath Hong Kong CPA Limited. The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited, who retire and being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Wang Chun**
*Executive Director*

Hong Kong
18 April 2008

# CORPORATE GOVERNANCE REPORT

The Company is committed to achieving and maintaining statutory and regulatory standards and adhering to good corporate governance in the conduct of its business. The Company has applied and has, save for the deviations and reasons thereof as discussed below, been in material compliance with the principles of the Code provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2007.

The Board believes that good corporate governance is essential in enhancing the confidence of the current and potential shareholders, investors and business partners and is consistent with the Board's pursuit of value creation for the Company's shareholders. This Corporate Governance Report is prepared in material compliance of the reporting requirements as contained in Appendix 23 of the Listing Rules.

The Directors acknowledge that they are responsible for overseeing the preparation of accounts for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2007, the Directors have, among other things:

- Selected suitable accounting policies and applied them consistently;
- Approved adoption of all Hong Kong Financial Reporting Standards ("HKFRSs") which are in conformity with the International Financial Reporting Standards ("IFRSs"); and
- Made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis.

## THE BOARD

The management and control of the business of the Company ultimately vests with the Board. The Board sets long term direction and objectives and oversees the management's plans and strategies for the delivery of results. The Board may delegate its responsibilities or functions to Board Committees and the day-to-day operation to management and ensures appropriate human and financial resources are appropriately applied and that the performance for the achievement of results is evaluated periodically. The Board approves all significant transactions and publication including annual report, interim report, circulars and announcements. In cases where shareholders' approvals are required, the Board resolves to convene the necessary shareholders meetings to seek shareholders' approval. Every Director is committed to carry out his duty in good faith, act honestly with due diligence, skill and care and in the best interest of the Company and its shareholders at all times.

As at the date of this Report, the Board comprises five members (as at 31 December 2007 – eight members), two of which are Executive Directors and three are independent non-executive Directors. Collectively, they bring a broad range of commercial, financial, management and stewardship experience and varied skills, expertise and qualification for leading and directing the Group's affairs. The Directors biographical details and other information are set out in the "Report of the directors" section of the Annual Report.

In accordance with the Bye-laws of the Company, the Board members elect among themselves a Director to be the Chairman of the Board. Dr. Zhang Lijun was the Chairman of the Group since 8 December 2006.

# CORPORATE GOVERNANCE REPORT

## THE BOARD (continued)

According to the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this annual report, the Board has not appointed an individual to the post of chief executive officer. The role of the chief executive officer has been performed collectively by all the executive directors, particularly by the chairman, of the Company. The Board considers that this arrangement is appropriate and cost effective in the initial phase of development of the Group and allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies. Going forward, the Board will periodically review the effectiveness of this arrangement and considers appointing an individual as chief executive officer when it considers appropriate.

All new Directors appointed to fill casual vacancies of the Board are subject to election by the shareholders of the Company at the first general meeting after their appointments. In accordance with the proposed Bye-laws and practice of the Company which conform to the requirements of the Listing Rules, one-third of Board members are required to retire by rotation each year at the Annual General Meeting provided that every Director shall be subjected to retirement at least once every three years. Directors, who retire, if eligible, may sit for re-election at the same Annual General Meeting.

All Board and Committee meetings adhere to a formal agenda set in advance for consideration/resolution. All Directors may arrange to include matters on the agenda for consideration at Board meetings. Board materials are provided in advance of the meetings and detailed minutes are prepared and made available to all Directors. The Directors have access to the advice and services of the Company Secretary and if necessary, have recourse to external professional advice at the Company's expense. During the intervals between Board meetings, individual Directors are being kept informed of major developments of the Group by the Chairman and the Company Secretary.

## ATTENDANCE OF DIRECTORS AT BOARD AND COMMITTEE MEETINGS

During the year, the Board has held 10 regular meetings. The attendance of individual Directors at the Board meetings and the Board Committees is set out in the table below.

| | Number of Times Meetings Attended/ Meetings Held | | |
|---|---|---|---|
| | **Regular Board** | **Audit Committee** | **Remuneration Committee** |
| **Executive Directors** | | | |
| Zhang Lijun | 9/10 | n/a | 1/1 |
| Wang Chun | 8/10 | n/a | 1/1 |
| Guo Duen How, Tom (1) | 0/0 | n/a | n/a |
| Kao Ying Lun (2) | 1/1 | n/a | n/a |
| Lu Xing (5) | 2/2 | n/a | n/a |
| Wu Fred Fong (5) | 9/10 | 1/1 | 1/1 |
| Yu Jianmeng (5) | 6/10 | n/a | n/a |

# CORPORATE GOVERNANCE REPORT

## ATTENDANCE OF DIRECTORS AT BOARD AND COMMITTEE MEETINGS (continued)

| | Number of Times Meetings Attended/ Meetings Held | | |
|---|---|---|---|
| | Regular Board | Audit Committee | Remuneration Committee |
| **Independent Non-executive Directors** | | | |
| Wang Zhichen (6) | 3/3 | 1/1 | 1/1 |
| Wang Linan (6) | 3/3 | 0/1 | 1/1 |
| Choy Tak Ho (4) | 2/2 | n/a | n/a |
| Loke Yu alias Loke Hoi Lam | 7/10 | 1/1 | 1/1 |
| Tsui Chun Chung, Arthur (3) | 1/2 | n/a | n/a |

*Notes:*

(1) resigned on 15 March 2007.
(2) resigned on 1 April 2007.
(3) resigned on 7 June 2007.
(4) retired on 28 May 2007.
(5) retired/resigned on 31 January 2008.
(6) appointed on 22 August 2007.
(7) Due to the resignation of certain directors during the year, the Board resolved to carry out the functions of the nomination and remuneration committees at the full Board level until proper segregation and delegations of the Directors to the Board committees shall have been agreed or established.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company believes that the Independent Non-executive Directors as a group comprises a good mix of professional and business executives who have significant exposure to the business and accounting environment of Hong Kong and the PRC. The Board believes that such a group is ideally qualified to provide independent advice and guidance to the Board, to serve on the Board committees and to act as independent stewards of the Company for the interests of its shareholders.

The Board evaluates the independence of all Independent Non-executive Directors on an annual basis and established the practice of requesting written confirmation from each Independent Non-executive Director regarding his independence. Throughout the year in review and as at the date of this report, the Board is satisfied that all such Directors are in full compliance with the independence guidelines as laid down in the Listing Rules. However, the Independent Non-executive Directors are not appointed for a specific terms as their appointments are automatically renewed on an annual basis after the first anniversary. Nevertheless, the Independent Non-executive Directors are subject to the three-year rotation rules for retirement and re-election by the shareholders as required by the Company's Bye-laws.

## BOARD COMMITTEES

The Board has established the Audit Committee since 1999 and the Remuneration Committee in 2007, but has yet to delegate the nomination functions to a committee of the Board. Such delegation was disrupted due to the significant change in emphasis to the line of business of the Group and directorship changes during the year.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

The Audit Committee was set up in 1999 and currently comprises the three Independent Non-executive Directors. The Audit Committee provides the Board with advice and recommendations on accounting, reporting and internal control matters and acts as a formal liaison channel for review, communication and problem resolution between the Company and its auditors. The Committee members collectively hold the relevant commercial, industry, financial and auditing experience necessary for the Committee to function effectively and independently.

For the composition and biographical details of the members of the Audit Committee, please refer to the "Directors' Report" section of the Annual Report.

The Audit Committee's primary functions include:

- to recommend to the Board on the appointment, terms of engagement of the external auditor;
- to review and monitor the appropriateness of accounting policy, accounting practices, financial reporting and disclosure and the application of judgement and estimates related thereto;
- to review the company's annual and interim reports and any opinion expressed by the external auditor;
- to review any related party transactions and connected party transactions for compliance with the requirements of Listing Rules and for reasonableness and fairness to the Company and its shareholders;
- to review with the external auditor issues raised in the external auditor's management letter, queries or similar communications; and
- to monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.

The Audit Committee has met one time in 2007 and members of the Committee also actively participated at the full Board or any Independent Board Committees formed from time to time for the purpose of advising the independent shareholders of the Company of transaction(s) which require their input or contributing their independent views in areas of business, financial, management and operating practices.

### Audit and Related Fees

During the year under review, the fees paid or payable to the Group's external auditor Shu Lun Pan Horwath CPA Hong Kong Ltd were as follows:

| | |
|---|---|
| Audit | $1,580,000 |
| Non-audit services | $117,384 |

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE (continued)

### Internal Control

The Board is entrusted with the overall responsibility for establishing and maintaining effective internal control systems for the Group. The management of the Group is delegated with the responsibility from time to time to implement and maintain the Board's policies on risk management and control. Detailed procedures are developed by management for major business units. At least annually, the significant internal control system is reviewed with the Company's auditor.

The Group's internal control systems are designed to provide cost effective and reasonable protection that safeguards the Group's assets and maintains the integrity of the accounting and reporting systems. The Group emphasises the appointment of qualified, experienced and capable individuals to carry out critical control functions and has put in place a system for effective segregation of key duties and responsibilities. The Board and the Audit Committee periodically evaluate major controls and risks and where considered necessary, retains external professional services to evaluate or seek improvements to the internal control systems. The Audit Committee provides independent advice to the Board and assists in the review of the internal control issues and to liaise with external auditor and consultants as appropriate.

## REMUNERATION COMMITTEE

The Remuneration committee was set up in 2007. The Chairman of the Remuneration Committee is Dr. Loke Yu, other members are Dr. Zhang Lijun, Ms. Wang Chun, Mr. Wang Linan, Mr. Wang Zhichen. The majority being independent non-executive directors of the Company. It recommend to the Board on the Company's policy and structure for all remuneration of the Board member and senior management, on the establishment of a formal and transparent procedure for developing policy on such remuneration and to determine specific remuneration packages for the Company's directors and senior management.

The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. In setting remuneration packages, the Company takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual directors. Individual Director and Executive would not be involved in deciding his own remuneration. The specific written terms of reference follows closely the requirements of the code provisions of the Code.

## NOMINATION COMMITTEE

Terms of reference for the Nomination Committee has been established. However, due to substantial changes to the members of the Board during 2007, the functions of the Nomination Committee were not separately established. Such functions were retained at the full Board. The Board considers that with substantial changes to the directorship of the Board in 2007, any new appointment to the Board should first be entitled to have full and direct input on the proposed future direction and business objectives of the Group. Any nomination decisions and human resources needs should integrate fully with this future direction and objectives of the Group.

The full Board has met three times during the year on matters relating to nomination. Although the nomination functions were not decided by committees in which independent non-executive Directors having the majority, the decisions nonetheless were made with active inputs from all Directors, including all of the Independent Non-executive Directors. In both of the relevant meetings of the Board, unanimous decision was achieved for the nomination and remuneration resolutions.

# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE (continued)

In making decisions on nomination of Directors, the Board adopts certain criteria to assist in its evaluation which included the candidate's academic, professional and business background, his past responsibility, exposure to the business environment in which the Group operates and intend to be engaged in and his experience including directorship or senior management level involvements with other entities, and his contribution or achievement to the Group.

The Company follows the practice that all the Directors would be subject to retirement by rotation and would be subject to re-election by the members of the Company according to its proposed Bye-laws amendments. For any Director appointed by the Board to fill casual vacancies of the Board, the Company also follows the practice of seeking shareholders' re-election and approval at the next general meeting of the members of the Company.

## CODE OF CONDUCT

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based primarily on the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all the relevant persons as defined in the Code, including the Directors of the Company, any employee of the Company, or a Director or employee of a subsidiary or holding company of the Company who, because of such office or employment or involvement, are likely to come into contact or be in possession of unpublished price sensitive information in relation to the Company or its securities. Specific enquiry has been made of all the Directors of the company who have confirmed their compliance with the required standards set out in the Code of Conduct during the year under review and up to the date of this Report.

## DIRECTORS' INTERESTS

Full details of individual Director's interests in the shares, share options and interest in securities of the Company are set out on page 8 of the "Directors' Report" and in note 36 to the financial statements.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

Directors' and the auditor's respective responsibilities to the shareholders in respect of the financial statements are included on page 25 of the "Independent Auditor's Report".

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company attaches great priority to open and effective communications with its Shareholders and potential investors on the development of the Company either through annual report, interim report, circulars and announcements. In addition, key executives of the Company participated conferences and forums with the objective of promoting investor and stakeholder interests in the Group's businesses. The Directors regard all meetings with its shareholders to be very important as it affords an opportunity for direct communication with the shareholders. When appropriate, presentations would be made at general meetings for the purposes of keeping shareholders informed of corporate developments.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS AND DIVIDEND

Turnover of the Group for the year was approximately HKD58,400,000, compared with last year of HKD7,256,000. The significant increase was primarily due to last year's operation was approximately one month. Operating loss attributable to shareholders was HKD59,680,000, equivalent to a loss of Hong Kong 3.8 cents per share, which was 46% less than that of the previous year. The Board recommends that no dividend will be paid for the year ended 31 December 2007.

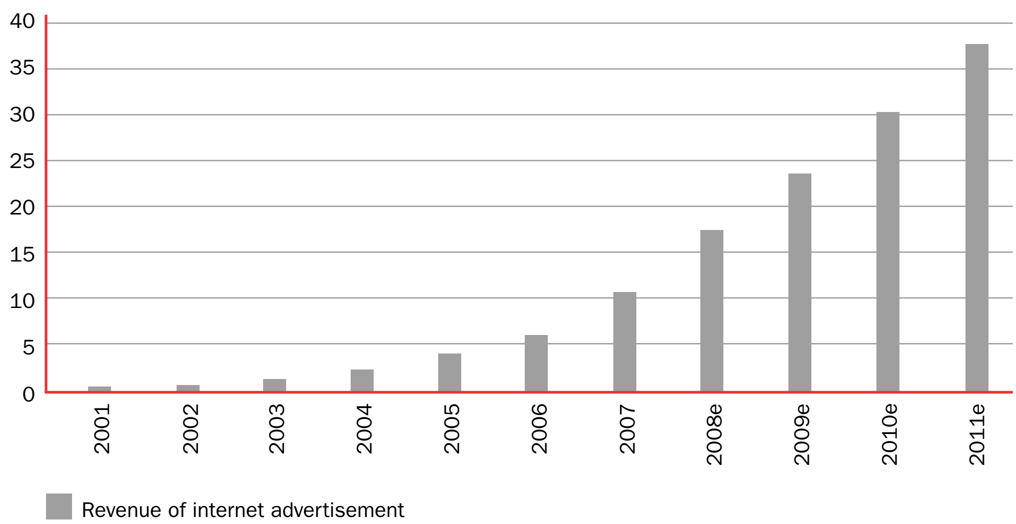
## OPERATING ENVIRONMENT

VODONE completed its business transformation after the disposal of the Chinese Pharmaceutical business. The Group will continue to focus on the tele-media service business. The People's Republic of China (the "PRC") continues to demonstrate a rapid and sustainable economic growth in the past decade. It has become one of the most influential economies in the world. China's economic growth rate reached 11.4 per cent in 2007 to RMB246,619 trillion, the fifth year in a row that the country's annual GDP growth rate exceeded 10 per cent. Meanwhile, consumer price index rose by 4.8% per cent in 2007. With the excessively high investment growth rate, high growth of credit and high inflation, the PRC government had to constantly implement austerity measures to avoid overheating of the economy, particularly in certain industries. It is expected that in the foreseeable future, China will maintain the momentum of a relatively stable and fast economic growth guided by macro-economic policies.

The Group has long identified the PRC as a vast market with great potentials. As one of the growth strategy of the Group, efforts have been directed to seeking for investment and co-operation opportunities in the tele-media industry. Such opportunities should be able to expand the Group's operating circumference while nurturing new dimensions for the value creation for its shareholders. The Group has also identified the market potential generated by the convergence of the advertising, broadcasting and telecommunications markets. The mass population in the PRC has formed a solid foundation for the booming Internet market and will bring about longer term opportunities.

With the accession to the World Trade Organisation, China has become more open to information exchange. As such, the information technology infrastructure has become more and more sophisticated to meet the growing demand. Broadband users in China reached over 122 million in 2007, making it the largest market in the world. According to the Ministry of Information ("MII", 中華人民共和國信息產業部), 60 per cent of total internet users in the PRC surf the internet using broadband. One third of farmers in the PRC now have Internet access, and it is expected that the growing demand will continue. On average, statistics showed that the broadband users each spent above RMB160 per month. There is also a rising demand in the use of Wireless Internet connections ("Wi-Fi"). Seventeen million users now access the Internet primarily via a wireless device. This is also a trend that is becoming more and more prominent in Japan, USA and the UK.

**scale of china internet advertisement market (Billion Yuan)**



# MANAGEMENT DISCUSSION AND ANALYSIS

China Telecom will initiate Wi-Fi-Bidding in 21 Chinese provinces. Such Wi-Fi stations would be built in cities, including hotels, office buildings, schools and cafes. In the second half of 2007, China Telecom had already established Wi-Fi networks in seven provinces, including Jiangsu, Zhejiang, Shanghai, Fujian and Sichuan, on a trial basis. The wider Internet accessibility would drive the growth of Internet users in the PRC at an even more tremendous pace. As the user population of the net community grows, the Internet advertising industry also flourishes. In 2007, Researcher BDA China Ltd. estimated that there were over 220 million Internet users in the PRC, compared with 217.1 million in the U.S. According to the estimates of e-Marketer, the online advertising revenue in the PRC, amounted USD1.3 billion in 2007. Its revenue continued to lag behind that of US, which amounted to USD21.4 billion. While the conventional mass-media advertising market in China is still strong, particularly due to the 2008 Beijing Olympic Games, the increasing competition in the consumer market also gave rise to the booming Internet advertising market. Advertisers are more willing to allocate part of their marketing budget to experiment alternative forms of advertising, such as Internet advertising. The beauty of Internet advertising is that it can identify a particular group of target audience through a sophisticated data mining system. A number of well-established Chinese portals recently reported greatly improved advertising revenues. A report from iResearch, an independent research company on Internet, revealed that the total revenue of the PRC Internet advertising in 2007 was RMB10.6 billion. The concept of the Internet advertising market covers both brand marketing and search engine marketing. According to the growing trend, iResearch estimated that the Internet advertising revenue would reach RMB37 billion by year 2011. From the RMB37 billion, brand marketing would account for RMB23.7 billion while search engine marketing would account for RMB13.3 billion separately. It is predicted that search engines, social networking websites and other new types of advertising would push the increasing trend revenue. As a result, it appears that the operating environment is favourable for licensed operators which engage in the tele-media and related businesses.

At present, the PRC has yet to announce the official release of the third generation mobile ("3G") license which industry observers believe should ideally be issued before the end of 2008. The PRC became the largest market for mobile phones in 2007 with over 515 million users. 3G networks will greatly support the real-time broadcasting of infotainment content in the PRC, which is also the world's largest mobile communications market. The number of mobile network subscribers in the PRC surpassed the number of fixed-line subscribers in 2003. As a result of the issuance of 3G licenses, the market potential for the tele-media industry will be enormous. It would enable people to access contents through mobile phones, which in turn, benefit the content providers too. 3G networks would also attract a lot of advertising which is a major driver of revenues. With the convergence of the broadcasting and telecommunication business, the rising demand for mobile infotainment contents, and the growing number of mobile phone and broadband users, it is expected a promising outlook for mobile infotainment and advertising business.

## COMPANY DESCRIPTION

### VODone Telemedia Company Limited ("VODONE")

VODONE is a company incorporated in the PRC in 2005. It operates a nation-wide audio/video broadband transmission platform, delivering a range of cross media telecommunications contents and valued added services, directly and indirectly, to its customers. The Company entered into a master agreement with VODONE for it to provide an exclusive business support and content services. In return, the Group will receive revenues from the tele-media value added services of VODONE. VODONE's customers include users of broadband Internet, mobile phone users and internet protocol television ("IPTV") viewers. VODONE's mission is to build a nation-wide "tele-media" company in the PRC. In addition to self-produced programmes and contents, VODONE has also built a content management and advertising platform to aggregate third party contents and advertisements into VODONE's website for onward distribution and revenue generation. This has been developed even further due to the linkage between www.vodone.com and its Web Unions. VODONE has established a new digital video streaming transmission platform targeting the multi-million Mobile Infotainment market and bulletin board system publication platform over the broadband Internet and mobile phone network. This facilitates the electronic transmission of programme, advertising and publication materials to targeting the huge population in the PRC. The accuracy and effectiveness of this is reliant on VODONE's professional technical team along with its business partners.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Background of TMD1 and TMD Service Companies

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

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

As at 31 December 2007, the Group holds a 99.69% interest in TMD2 and 97.09% in TMD4. TMD3 has become a wholly owned subsidiary of the Group since mid-February 2007.

## Strengths of VODONE

VODONE is one of the few companies that has obtained all the relevant and necessary licences from The State Administration of Radio Film and Television ("SARFT", 國家廣播電影電視總局) and the MII and other PRC authorities that VODONE is able to produce and broadcast audio/video programmes through the Internet and operate telemedia related business in the PRC. This also enables VODONE to produce different types of programmes and broadcast advertisements that can penetrate to different categories of audiences with various taste and demand. Following are the license details:

Licenses issued by the SARFT (國家廣播電影電視總局):

- Radio and TV Program Production and Business Operation License (廣播電視節制作經營許可證);
- Information Network Communicated Audio-Video Program License (信息網絡傳播視聽節目許可證);

Licenses issued by MII (信息產業部):

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

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

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

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

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

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

To enhance the competitiveness, continuous improvement and to create new business opportunities, VODONE has entered into strategic partnership with:

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

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

(iii) China Unicom and other mobile network providers, such as China Telecom and China Mobile, to engage in mobile broadcasting, such that mobile users of China Unicom can access VODONE's online video programmes and advertising;

(iv) DoubleClick to adopt its advanced technology in advertising audience targeting based on their preferences;

(v) AC Nielsen to monitor and perform auditing on the accuracy of figures such as page views, user groups, user preferences, types of websites etc.;

(vi) iResearch to be the independent researcher on the Chinese Internet and advertising market, and producing evaluation reports on the influence and potential of VODONE's business model;

(vii) Baidu to promote the Water Margin casting polling show by setting up a theme page which shows all relevant news and events about the show and the TV series. Baidu will also direct web traffic to the official website of the Water Margin TV series;

(viii) Tencent to be responsible for the setting up of the Water Margin website, posting various information such including the synopsis of the TV series, introduction of the casting, news update, photos, selected video clips and theme songs of the series.

The new Internet regulation announced by the MII stated that starting from 31 January 2008, companies that perform businesses related to in-house content/programme production and video streaming on the Internet, without the required licenses, would be forced to close down. Its cooperation with advertisers will also be suspended. The MII will take appropriate actions vigorously. VODONE will certainly benefit from the implementation of the new regulation, since it is the very few companies that owns the complete set of licenses to operate legally on the Internet in the PRC.

## OPERATION REVIEW

### Tele-media service business

During the year under review, the Group focused its efforts on its tele-media business (along with its strategic partner, VODONE Telemedia Co., Ltd., ("VODONE") (第一視頻通信傳媒有限公司) a state-owned company incorporated in the PRC and licensed in the PRC to provide an audio/video transmission platform delivering a range of cross media telecommunications contents and valued added services, directly and indirectly, to its customers. A master agreement was entered into between VODONE and VODone Datamedia Technology Co. Ltd. ("TMD1"), for the Group to provide the exclusive business support and content services for 50 years from 2006 onwards. In return, revenues from the tele-media value added services of VODONE would be received by the Group via TMD1. VODONE mainly focus on the VODone Broadcasting Union System ("VODone BUS") and the Seven Broadcasting Channels. The tele-media is one of business segments that has the greatest market potential in China.

### VODone BUS

The Group's main focus is at present on rolling out the VODone BUS. In early 2007, the business model of Web Union was established. Commercialisation and trial run of all aspects of the platform was officially completed in August 2007.

VODone BUS is an online advertising, content aggregation and payment platform with a well established website infrastructure to adopt Internet advertising in text, banner, flash, images and most importantly video formats. The digitization infrastructure allows precision delivery of information to any groups of audience, any region at any time slots. This is expected to become the main income driver for the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

VODone BUS allows advertisements to be displayed in strategically selected member websites according to advertisers' preferences. VODone BUS media players are displayed in over 40,000 affiliated websites across the PRC broadcasting contents and video advertisements on web member sites. The page-views or traffic of the participating Web Union members were collected and sold to advertisers in bulk to generate advertising revenue. Web Union members share a small portion of the advertising revenues and the Group received the majority of the revenue. Advertising promotional activities are currently obtained through different channels. The Group has an in-house sales team that constantly searches for potential advertisers. These include big and small PRC companies as well as well-known international brand names that intend to establish a presence in the PRC. The Group has also entered into agreements with several 4A advertising agencies. Such agencies are effective and are able to secure promising results. Moreover, advertisers can visit the www.vodone.com portal website and upload advertisement themselves. This is a unique method offered by VODone BUS, mainly targeting small-sized businesses that have a low advertising budget. Since establishment of the on-line platform, page views have been accumulating at a rapid rate. The current page views reach 120 million per day, as audited by AC Nielsen, an independent firm. This shows the significant revenue generating potentials and becomes the cornerstone for large scale on-line video advertising. With such high page view figures, it is believed that VODone BUS would attract advertisers seeking new horizons to broadcast advertisement online to specific audience groups as both large and small advertisers can choose the type of member websites, the time and national/regional preference to place their advertisements. The accuracy of this sophisticated task is rendered by the professional in-house technical team and the advance technology of DoubleClick (A well-established U.S internet advertising company) of which "TMD 2" (VODone Information Engineering Co., Ltd., a 97% owned subsidiary of the Group incorporated in the PRC) has signed a service agreement with in January 2008.

Video advertising on the Internet is becoming increasingly popular, especially in the USA and Japan and would prove to be an effective and popular means of advertising in China. VODone BUS is the pioneer in this field in China, and the Group is one of the few companies in the PRC who owns a complete set of licences enabling them to distribute video content over the Internet. This advantage has been further enhanced as a result of the new Internet regulation promulgated by Ministry of Information Industry that commencing on 31 January 2008, online companies without the associated licenses and distributing video content are considered acting against the law. It is believed that the government will take considerable actions against illegal websites in the months to come. The Group is one of the very few holders of the licenses and it has the first mover advantage. Numerous efforts and resources were devoted to the development of the infrastructure for VODone BUS. Due to its infant stage of the development for most part in 2007, it is expected that the performance of the Group can be more clearly seen in the near future.

### VODone LIVE

The seven infotainment broadcasting channels launched in late 2007 on the VODONE web platform have now been incorporated into the "Live" section of the www.vodone.com portal. The names of the channels were changed to tie with the new corporate image.

VODone LIVE is the complete version of the portal website www.vodone.com incorporating the contents from the "Seven Channels" with in-house production and real-time contents. The modification was made to reduce the high maintenance, production and manpower costs otherwise required to maintain the Seven Channels separately. Currently, certain live programmes make use of the licenses held by VODONE Telemedia. Some live programmes are being sponsored by specific companies, and the number of sponsorship is expected to increase. VODone LIVE would bring out the intrinsic value of live programmes in the PRC as well as bring revenues to the Group.

Live programmes that were broadcast on www.vodone.com include "China Unplugged" 中國Un-plugged不插電音樂會葉蓓專場 in February 2008, "China Automobile Awards 2008" 中國2008年度車型評選頒獎典禮 in December 2007 and "2007 Red Cross International Pageant Charity Night" 2007世界小姐紅十字慈善晚會 in November 2007. VODone LIVE also serves as a platform which enabling users to upload video clips for online sharing. It is a concept similar to the well-known video upload websites in the US and UK, that allows user engagement and increases user loyalty. VODone Telemedia Co., Ltd. ("VODONE") continues to cooperate with MSN and CNCMAX, in which both companies utlitizes VODONE licenses to distribute online video content in the PRC. Under the current environment, pay per view is resisted by consumers. It is expected that, revenue that VODone LIVE brings in would be substantially lower than VODone BUS, leading to the Group's decision on scaling down this line of business and shifting resources to focus on VODone BUS which is expected to be the main income driver for the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Olympic BIMC

VODONE is the official new media partner of the 2008 Beijing International Media Center ("BIMC"). This Center will provide non-registered reporters with up-to-date Olympic game results and events. It is expected that about 10,000 such journalists from around the world to cover the Olympics. The Center will assist these journalists in various ways, including footage editing and news publication support, with the access to VODONE studio equipment. Income will be derived from the advertisements in the various forms placed by VODONE in the Media Center, including banners, billboards, LED and LCD displays, as well as projections. VODONE will also be able to enhance its brand equity, which is invaluable for its future development. Being VODONE's strategic partner, the Group will directly benefit from the operations of BIMC.

### Water Margin

One of the Company's subsidiaries, in connection with an independent third party, entered into an agreement with China Anhui TV Station on 11 December 2007 to jointly host a nation-wide casting poll show for a television series Water Margin, scheduled to be produced in mid 2008. Already various movie stars and celebrities have shown their interests. Audiences in China and overseas can vote through the internet for their favourite celebrities to be cast in the Show which will be broadcast nation-wide in China. Water Margin line casting polling is becoming an entertainment and on-line excitement. The Group will be able to collect revenue from various voting platforms. Apart from this, a share of the advertising revenue generated from the casting selection by Anhui Satellite TV will also go to the Group.

The benefits of this business are as follows:

- Revenue generated from television advertisements
- Sponsorship income
- Revenue generated from the Internet and telecommunication value-added services related to the show
- Increase VODONE brand recognition, popularity, page views and web traffic

On 3 January 2008, the group entered into an agreement with a wholly-owned subsidiary of Tencent Holdings Limited ("Tencent"). Tencent agreed to set up the Water Margin theme webpage, posting information such as the synopsis of the TV series, introduction of the casting, news update, photos, selected video clips and theme songs of the series. The contents in Tencent will direct the Internet users to VODONE's Water Margin official website to vote for their favourite artistes to take part in the TV series. On 4 December 2007, TMD2, also entered into an agreement with Baidu Online Network Technology (Beijing) Co., Ltd. Baidu would become VODONE's partner in promoting the Water Margin casting polling show by setting up a theme page with all relevant news and events about the Show and the TV series. It will also directs web traffic to the Water Margin official website hosted by www.vodone.com and greatly increase revenue potential and brand recognition of the Group.

### The Chinese Pharmaceutical business – Old business

The Group disposed of the Chinese Pharmaceutical business in October 2007 to focus on its tele-media business in the PRC. Reasons for the disposal were more fully discussed in the Company's circular dated 28 September, 2007. A disposal gain of HK$17,787,000 was recognised in the year. Subsequent to the disposal, the interest in Huayi was eliminated from the consolidated results save for the above disposal gain.

## FINANCIAL REVIEW

### Chinese Pharmaceutical business

Following the management's decision, the 60% interest of the Chinese Pharmaceutical business (Huayi), representing its entire interest owned by Star Wisdom Investment Limited (an indirect 94% subsidiary of the Company) was disposed of for a sum of RMB26,000,000 in 2007.

### Tele-media service business

The tele-media service business contributed a turnover of HKD58,400,000 to the Group in the financial year of 2007. As a result of the disposal of the Chinese Pharmaceutical business, the Directors consider the tele-media service business to be the core business and the major profit driver would mainly be generated by Internet advertising.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Selling, General and Administration costs were HKD103,967,000, an increase of over 52.5% of that of last year. Part of the increase is due to the significant expansion of operations in 2007 including the relocation of our Beijing office to a new 4,000 sq. meter premises in Haidian District. Further, additional resources were made during the year in key marketing and brand building activities such as Water Margin, Olympic BIMC and VODone BUS. Costs for the year included the cost of HKD32,803,000 related to share based compensation. During the year, the Group did not recognise any goodwill impairment loss. The Directors consider that, with the contribution of turnover by TMD Service Companies in the forthcoming year, the financial results and position will start to show improvement.

## Liquidity and Financial Resources

As at 31 December 2007, the Group had HKD553,601,000 cash and cash equivalents (2006: HKD206,320,000). Working capital also improved to HKD702,998,000 as compared with the working capital of HKD101,523,000 at the end of last year. The significant improvement in liquidity of the Group was largely the result of the issuance of convertible notes on 23 July 2007 which generated proceeds of HKD410,000,000. Out of which the amount of the cash held by the Group, amount equivalent to HKD117,091,000 was held by subsidiaries' PRC bank accounts. A further sum of HKD17,368,000 has been committed to invest in a project in the PRC.

As referred to in Note 27 to the financial statements, if the Notes have not been converted, they will be redeemed by the Company at the end of the maturity date at par in July 2009. The Notes also provide that the Company or any of its subsidiaries may at any time and from time to time purchase the Notes at any price as may be agreed between the Company or such subsidiary and the relevant noteholder.

The exercise of share options by eligible participants of Group's share option scheme also contributed extra liquidity to the Group. On 8 March 2007, a total of 151,435,000 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$1.83 per share. The options may be exercisable during the period from 26 March 2007 and 25 March 2010. During the year, 71,290,000 of these share options were exercised. On 17 August 2007, a total of 11,455,000 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 17 August 2007 and 16 August 2010. During the year, 1,000,000 of these share options were exercised and 9,955,000 share options were cancelled.

As at 31 December 2007, the Group's current ratio improved to 42.6 (2006: 1.84), debt equity ratio and gearing ratio (i.e., interest bearing bank loans and convertible notes, other borrowings to shareholders' equity) were changed to 56% (2006: 13%) and 56% (2006: NIL) respectively.

## Capital Structure

As at 31 December 2007, the Group had total assets of HKD1,016,129,000 (2006: HKD538,400,000) which were financed by shareholders' funds of HKD615,029,000 (2006: HKD385,229,000), total liabilities of HKD376,533,000 (2006: HKD123,376,000) and minority interests of HKD24,567,000 (2006: HKD29,795,000).

In 2007, the Group substantially expanded its capital base, mainly due to the issuance of convertible notes in July to raise a sum of HKD410,000,000.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEES REMUNERATION AND BENEFITS

As at 31 December 2007, the Group had 230 employees in the PRC and Hong Kong. They include the management and the employees in administration, production and sales personnel. More talented individuals are being recruited to support the growth of the Group.

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

## PROSPECTS

The booming economy in the PRC has enabled the Mainland to be a key player in the global economy. With the improved living standard and education level of the population, the demand for online information and entertainment, as well as the importance of advertising will greatly increase. Such market conditions create a huge potential for the growth of the number of broadband and mobile phone users. The commercial sector is also expanding at an accelerating pace. It would not be surprising that the Internet would become more and more popular. Similarly, Internet advertising especially in video format will also become a popular means of advertising. Not only would the cost become much lower compared with that of the conventional advertising methods, but it is also a much more efficient and effective means as the digital distribution platform allows precision delivery of advertisement to the audience at time and location desired.

It has been forecast that the Compound Annual Growth Rate of PRC online advertising revenue from 2006-2011 would reach 37%, with a sustainable growth rate of over 30% till 2015. The strong growth is mainly driven by the rising Internet penetration and utilization as well as the value chain development. VODone BUS operates a web union which recruits website members with insufficient traffic to attract advertisers on their own. Some of these are small websites including blogs, forums and verticals with less than 20,000 page views per day, but may have a niche and targeted audience. Nonetheless, some web union members are popular websites with high page views. The trend of the expansion of the web union to include both niche and mass market websites are expected to continue. Web unions have already increased from 5,500 in July 2007 to the current 40,000. This already shows the performance and progress made by VODone BUS. The Group has grasped this golden opportunity to be the leading player in the video infotainment and the provider of Internet advertising.

## GRATITUDE

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

On behalf of the Board

**Wang Chun**
*Executive Director*

Hong Kong
18 April 2008

# INDEPENDENT AUDITOR'S REPORT

**Shu Lun Pan Horwath Hong Kong CPA Limited**
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To the shareholders of
**VODone LIMITED**
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of VODone Limited (the "Company") and its subsidiaries (thereafter referred to as the "Group") set out on pages 25 to 89, which comprise the consolidated and the Company balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**SHU LUN PAN HORWATH HONG KONG CPA LIMITED**
*Certified Public Accountants*
18 April 2008
**Chan Kam Wing, Clement**
Practising Certificate number P02038

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 (Restated) |
|---|---|---|---|
| **CONTINUING OPERATION** | | | |
| Turnover | 6 | **58,400** | 7,256 |
| Cost of sales | | **(39,759)** | (8,664) |
| Gross profit/(loss) | | **18,641** | (1,408) |
| Other revenue | 6 | **8,396** | 142 |
| Other gains and losses | 7 | **25,808** | (4) |
| Selling and distribution costs | | **(17,580)** | – |
| Administrative expenses | | **(86,387)** | (68,197) |
| Finance costs | 8 | **(22,916)** | (1,587) |
| Share of results of an associate | 19 | **(20)** | 1 |
| LOSS BEFORE TAX | 9 | **(74,058)** | (71,053) |
| Income tax | 12 | **–** | – |
| LOSS FOR THE YEAR FROM CONTINUING OPERATION | | **(74,058)** | (71,053) |
| **DISCONTINUED OPERATION** | | | |
| Profit/(loss) for the year from discontinued operation | 13 | **11,872** | (42,074) |
| LOSS FOR THE YEAR | | **(62,186)** | (113,127) |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the Company | 14 | **(59,680)** | (110,274) |
| Minority interests | | **(2,506)** | (2,853) |
| | | **(62,186)** | (113,127) |
| LOSS PER SHARE | 15 | | |
| Basic (HK cents) | | | |
| – from continuing and discontinued operations | | **(3.8 cents)** | (13.6 cents) |
| – from continuing operation | | **(4.7 cents)** | (9.0 cents) |
| Diluted (HK cents) | | | |
| – from continuing and discontinued operations | | **(4.3 cents)** | N/A |
| – from continuing operation | | **(5.1 cents)** | N/A |

# CONSOLIDATED BALANCE SHEET

As at 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *16* | **16,418** | 6,648 |
| Intangible assets | *17* | **–** | 22,920 |
| Available-for-sale investment | *18* | **–** | 99 |
| Interest in an associate | *19* | **48,034** | 48,051 |
| Goodwill | *20* | **231,792** | 237,898 |
| | | **296,244** | 315,616 |
| **CURRENT ASSETS** | | | |
| Inventories | *22* | **–** | 7,434 |
| Accounts receivable | *23* | **4,629** | 1,656 |
| Other receivables, prepayments and deposits | *24* | **127,063** | 2,600 |
| Amount due from an associate | *37(d)* | **25,483** | 4,773 |
| Amount due from a related company | *37(c)* | **9,109** | 1 |
| Bank balances and cash | | **553,601** | 206,320 |
| | | **719,885** | 222,784 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable | *25* | **–** | 5,474 |
| Other payables and accruals | | **14,895** | 51,430 |
| Deposits received | | **570** | 11,182 |
| Amount due to a related company | *37(c)* | **–** | 734 |
| Obligations under finance lease | *26* | **8** | – |
| Convertible note | *27* | **–** | 51,027 |
| Other borrowings | *28* | **1,414** | 1,414 |
| | | **16,887** | 121,261 |
| **NET CURRENT ASSETS** | | **702,998** | 101,523 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **999,242** | 417,139 |
| **NON-CURRENT LIABILITIES** | | | |
| Obligations under finance lease | *26* | **32** | – |
| Convertible notes | *27* | **359,614** | – |
| Other borrowings | *28* | **–** | 2,115 |
| | | **359,646** | 2,115 |
| **NET ASSETS** | | **639,596** | 415,024 |
| **EQUITY** | | | |
| Share capital | *30* | **16,441** | 13,908 |
| Reserves | | **598,588** | 371,321 |
| | | **615,029** | 385,229 |
| Minority interests | | **24,567** | 29,795 |
| **TOTAL EQUITY** | | **639,596** | 415,024 |

**ZHANG LIJUN**
*Director*

**WANG CHUN**
*Director*

# CONSOLIDATED
# STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Contributed surplus** | **Statutory reserves** | **Convertible note reserve** | **Share-based compen-sation reserve** | **Exchange fluctuation reserve** | **Accu-mulated losses** | **Minority interests** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | *(note 30)* | | *(note 31(i))* | *(note 31(viii))* | *(note 27)* | *(note 36)* | | | | |
| **At 1 January 2006** | 6,367 | 109,885 | 33,474 | 1,474 | - | 3,971 | (135) | (138,856) | 9,256 | 25,436 |
| **Net income recognised directly in equity** – exchange differences arising on translation of financial statements of overseas subsidiaries | - | - | - | 48 | - | - | 350 | - | 366 | 764 |
| Loss for the year | - | - | - | - | - | - | - | (110,274) | (2,853) | (113,127) |
| **Total recognised income and expense for the year** | - | - | - | 48 | - | - | 350 | (110,274) | (2,487) | (112,363) |
| Minority interests – Business combination *(note 32)* | - | - | - | - | - | - | - | - | 23,026 | 23,026 |
| Shares issued on placing/subscription | 4,672 | 255,962 | - | - | - | - | - | - | - | 260,634 |
| Shares issued on acquisition of a subsidiary | 2,800 | 173,600 | - | - | - | - | - | - | - | 176,400 |
| Shares issued on exercise of share options | 69 | 7,605 | - | - | - | (1,777) | - | - | - | 5,897 |
| Recognition of share-based payments | - | - | - | - | - | 19,502 | - | - | - | 19,502 |
| Cancellation of share options | - | - | - | - | - | (1,620) | - | 1,620 | - | - |
| Convertible note (equity portion) | - | - | - | - | 16,492 | - | - | - | - | 16,492 |
| **At 31 December 2006** | 13,908 | 547,052 | 33,474 | 1,522 | 16,492 | 20,076 | 215 | (247,510) | 29,795 | 415,024 |
| **Net income recognised directly in equity** – exchange differences arising on translation of financial statements of overseas subsidiaries | - | - | - | - | - | - | 11,825 | - | 223 | 12,048 |
| Loss for the year | - | - | - | - | - | - | - | (59,680) | (2,506) | (62,186) |
| **Total recognised income and expense for the year** | - | - | - | - | - | - | 11,825 | (59,680) | (2,283) | (50,138) |
| Disposal of a subsidiary *(note 33)* | - | - | - | (1,522) | - | - | (532) | 1,522 | (2,945) | (3,477) |
| Shares issued on conversion of convertible note | 1,052 | 66,467 | - | - | (16,492) | - | - | - | - | 51,027 |
| Shares issued on exercise of share options | 1,481 | 224,847 | - | - | - | (31,971) | - | - | - | 194,357 |
| Recognition of share-based payments | - | - | - | - | - | 32,803 | - | - | - | 32,803 |
| Cancellation of share options | - | - | - | - | - | (3,085) | - | 3,085 | - | - |
| **At 31 December 2007** | 16,441 | 838,366 | 33,474 | - | - | 17,823 | 11,508 | (302,583) | 24,567 | 639,596 |

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax from | | | |
| – continued operation | | **(74,058)** | (71,053) |
| – discontinued operation | | **11,872** | (42,074) |
| Loss before tax | | **(62,186)** | (113,127) |
| Provision for inventories | | **12** | 1,433 |
| Allowance for doubtful debts | | **366** | 63 |
| Depreciation | | **2,424** | 1,443 |
| Amortisation of intangible assets | | **3,268** | 4,236 |
| Impairment loss of goodwill | | **–** | 30,918 |
| Loss on disposal of property, plant and equipment | | **63** | 8 |
| Foreign exchange loss | | **6,342** | – |
| Interest income | | **(8,291)** | (137) |
| Interest expense | | **13** | 386 |
| Imputed interest of convertible notes | | **22,915** | 1,201 |
| Finance lease charge | | **1** | – |
| Fair value gain on derivative component of convertible notes | | **(42,413)** | – |
| Issuing cost on derivative component of convertible notes | | **9,630** | – |
| Share of results of an associate | | **20** | (1) |
| Share-based payment in respect of granting of share options | | **32,803** | 19,502 |
| Loss on disposal of available-for-sale investment | | **103** | – |
| Gain on disposal of a subsidiary | *13* | **(17,787)** | – |
| Operating loss before working capital changes | | **(52,717)** | (54,075) |
| Decrease/(Increase) in inventories | | **234** | (2,993) |
| (Increase)/decrease in accounts receivable | | **(5,092)** | 3,142 |
| Increase in other receivables, prepayments and deposits | | **(94,005)** | (1,799) |
| Increase in amount due from an associate | | **(19,598)** | (4,773) |
| Increase in amount due from a related company | | **(8,771)** | (1) |
| (Decrease)/increase in accounts payable | | **(3,764)** | 3,391 |
| (Decrease)/increase in deposits received | | **(10,612)** | 11,182 |
| (Decrease)/increase in other payables and accruals | | **(10,686)** | 16,216 |
| (Decrease)/increase in amount due to a related company | | **(758)** | 563 |
| Effect of foreign exchange rates changes | | **(898)** | (327) |
| Net cash outflow generated from operations | | **(206,667)** | (29,474) |
| Interest paid on other borrowings | | **(13)** | (386) |
| Finance lease charge paid | | **(1)** | – |
| Net cash used in operating activities | | **(206,681)** | (29,860) |

# CONSOLIDATED
# CASH FLOW STATEMENT

Year ended 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment | | **(16,899)** | (1,256) |
| Acquisition of subsidiaries | *32* | **–** | (13,603) |
| Disposal of a subsidiary | *33* | **(1,613)** | – |
| Interest received | | **8,072** | 137 |
| Proceeds from disposal of property, plant and equipment | | **–** | 33 |
| Net cash used in investing activities | | **(10,440)** | (14,689) |
| **FINANCING ACTIVITIES** | | | |
| Net proceeds from issue of shares | | **194,357** | 266,531 |
| Repayment of bank loan | | **–** | (20,543) |
| Net proceeds from issue of convertible notes | | **369,482** | – |
| Repayment of finance lease | | **(1)** | – |
| Net cash generated from financing activities | | **563,838** | 245,988 |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | | **346,717** | 201,439 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **206,320** | 4,794 |
| Effect of foreign exchange rate changes | | **564** | 87 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **553,601** | 206,320 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Bank balances and cash | | **553,601** | 206,320 |

# COMPANY BALANCE SHEET

As at 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | *16* | **2,229** | – |
| Interests in subsidiaries | *21* | **593,589** | 321,486 |
| | | **595,818** | 321,486 |
| **CURRENT ASSETS** | | | |
| Prepayments and deposits | *24* | **2,827** | 73 |
| Amount due from a related company | *37(c)* | **33** | – |
| Bank balances and cash | | **436,439** | 200,192 |
| | | **439,299** | 200,265 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | | **11,957** | 27,896 |
| Deposits received | | **570** | 11,182 |
| Amount due to a subsidiary | *37(c)* | **1,148** | – |
| Obligations under finance lease | *26* | **8** | – |
| Convertible note | *27* | **–** | 51,027 |
| | | **13,683** | 90,105 |
| **NET CURRENT ASSETS** | | **425,616** | 110,160 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,021,434** | 431,646 |
| **NON-CURRENT LIABILITIES** | | | |
| Obligations under finance lease | *26* | **32** | – |
| Convertible notes | *27* | **359,614** | – |
| | | **359,646** | – |
| **NET ASSETS** | | **661,788** | 431,646 |
| **EQUITY** | | | |
| Share capital | *30* | **16,441** | 13,908 |
| Reserves | *31* | **645,347** | 417,738 |
| **TOTAL EQUITY** | | **661,788** | 431,646 |

**ZHANG LIJUN**
*Director*

**WANG CHUN**
*Director*

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 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") until October 2007 when the segment was disposed of. 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 are 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. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised 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") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendment "Capital Disclosures" has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements | 1 January 2009 |
| HKAS 23 (Revised) | Borrowing Costs | 1 January 2009 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements | 1 July 2009 |
| HKFRS 2 (Amendment) | Share-based Payment – Vesting Conditions and Cancellations | 1 January 2009 |
| HKFRS 3 (Revised) | Business Combinations | 1 July 2009 |
| HKFRS 8 | Operating Segments | 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 |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes | 1 July 2008 |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | 1 January 2008 |

The Group is in the process of making an assessment of what the impact of these new or revised HKFRSs is expected to be in the period of their initial application.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain financial instruments which are carried at fair value.

### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries for the financial 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 Group, 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 holders 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 holders 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, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition are recognised in accordance with the policy set out in note 3(i) below.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (d) Subsidiaries

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

The Company's investments 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.

### (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 an associate are stated at cost less impairment losses. The results of the associate are accounted for by the Company on the basis of dividends received and receivable.

### (f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a group company undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (g) 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 recognised 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:

| | |
|---|---|
| Leasehold improvements | 40% |
| Motor vehicles | 20% |
| Plant, machinery and equipment | 10% – 15% |
| Furniture, fixtures and office equipment | 10% – 20% |
| Computer hardware and software | 10% – 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.

### (h) Chinese medicine intellectual property and knowhow

Chinese medicine intellectual property and knowhow is stated at cost less impairment losses and is 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.

### (i) 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 allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit 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.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (k) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical are of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement, which comprises:

- The post-tax profit or loss of the discontinued operation; and

- The post tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (l) 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.

### (m) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. These financial assets are subsequently accounted for as follows, depending on their classification:

**Loans and receivables**

Trade receivables, loans and other receivables including amounts due from associate and related company that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Available for sale investments**

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.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

**Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the assets have been impacted.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (m) Financial assets (continued)

**Impairment of financial assets (continued)**

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.
- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit and loss account. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.
- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit and loss account in respect of available-for-sale equity securities are not reversed through profit and loss account. Any subsequent increase in the fair value of such assets is recognised directly in equity.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (m) Financial assets (continued)

**Impairment of financial assets (continued)**

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included in trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the profit and loss account.

**Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

**Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### (n) Financial liabilities and equity issued by the Group

**Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*(i) Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (n) Financial liabilities and equity issued by the Group (continued)

**Classification as debt or equity (continued)**

*(ii) Compound instruments*

Convertible notes that contain an equity component

Convertible notes that can be converted to equity at the options of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition, the fair value of the liability component is measured as the present value of the future interest and principal payments, discounted at the prevailing market interest rate for a similar non-convertible instrument. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method and the portion relating to the equity component is charged directly to equity.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve (convertible note reserve) until either the note is converted or redeemed.

If the convertible notes are converted, the convertible note reserve, together with the carrying amount of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the convertible note reserve is released directly to retained profits/ (accumulated losses).

Other convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition, the embedded conversion option, ie derivative component of the convertible notes is measured at fair value using the Binomial model and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible notes are allocated to the liability and derivative components in proportion to the allocation of gross proceeds. The portion relating to the derivative component is recognised in the profit and loss account immediately while the portion relating to the liability component is included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

The derivative component is carried at fair value on the balance sheet with any changes in fair value being charged or credited to the profit and loss account in the period when the change occurs. The liability component is subsequently carried at amortised cost. The interest expense recognised in the profit and loss account on the liability component is calculated using the effective interest method.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (n) Financial liabilities and equity issued by the Group (continued)

**Classification as debt or equity (continued)**

*(ii) Compound instruments (continued)*

Other convertible notes (continued)

If the convertible notes are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible notes are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in the profit and loss account.

*(iii) Financial liabilities*

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. All the Group's financial liabilities are classified as other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method (note 3(m) above), with interest expense recognised on an effective yield basis.

**Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expired.

### (o) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the profit and loss account immediately.

**Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

### (p) 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.

### (q) Employees' benefits

**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.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (q) Employees' benefits (continued)

**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, 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.

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.

**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 share-based compensation 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/accumulated losses).

### (r) Taxation

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

**Current 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.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (r) Taxation (continued)

**Deferred tax**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

### (s) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

When it is 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.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (t) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the Inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss account. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (u) Foreign currency translation

The Company's principal subsidiaries are located in the PRC whose functional and presentation currencies are 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 ("HKD"), which is the Company's functional and presentation currency.

**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 are included in the fair value reserve in equity.

On consolidation, the balance sheet of subsidiaries denominated in foreign currencies is translated into HKD 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.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (v) Borrowing costs

Borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

### (w) 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.

### (x) 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.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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.

Unallocated items mainly comprise financial and corporate assets, convertible notes, corporate and financing expenses.

### (y) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes.

Revenue is recognised:

(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 tele-media services, when services have been rendered or substantially performed in accordance with the terms of the contract;

(iii) from dissemination of advertisements, when services have been rendered over the term of the relevant contracts; and

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

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### Estimates and judgements

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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) Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy as referred to in note 3(i) 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 expenses**

Share option expenses are 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 expenses recognised in the profit and loss account and share-based compensation reserve.

**(iii) Impairment of assets**

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 affect 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.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### Estimation uncertainty (continued)

**(iv) Fair value of derivative component of convertible notes**

The fair value of the derivative embedded in the convertible notes is valued by reference to valuations of the derivative component of the convertible notes using the Binomial valuation model. Should the estimates including the early exercise behaviour and the relevant parameters of the valuation model be changed, there would be material changes in the amount of fair value gain or loss recognised in the profit and loss account in respect of the derivative component of the convertible notes.

## 5. 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 2007 and 2006, the turnover and operating results of the Group were derived from the following two business segments:

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

During 2007 and 2006, the Group's operations are situated in the PRC in which all of its revenue was derived. Accordingly, no geographical segments are presented.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 5. SEGMENT INFORMATION (continued)

The following table presents revenue, results and certain asset, liability and expenditure information for the Group's business segments for 2007 and 2006:

**For the year ended 31 December 2007**

| | Continuing operation | Discontinued operation | |
|---|---|---|---|
| | Tele-media service HK$'000 | Manufacturing, trading and contracting of Chinese Medicine products HK$'000 | Consolidated HK$'000 |
| Segment revenue: | | | |
| Turnover | 58,400 | 6,426 | 64,826 |
| Segment results | (25,668) | 11,872 | (13,796) |
| Unallocated corporate expenses | | | (58,237) |
| Loss from operating activities | | | (72,033) |
| Finance costs | | | (22,916) |
| Fair value gain on derivative component of convertible notes | | | 42,413 |
| Issuing cost allocated to derivative component of convertible notes | | | (9,630) |
| Share of results of an associate | (20) | – | (20) |
| Loss before minority interests | | | (62,186) |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 5. SEGMENT INFORMATION (continued)

**For the year ended 31 December 2007 (continued)**

| | Continuing operation | Discontinued operation | |
|---|---|---|---|
| | Tele-media service HK$'000 | Manufacturing, trading and contracting of Chinese Medicine products HK$'000 | Consolidated HK$'000 |
| **BALANCE SHEET** | | | |
| Assets: | | | |
| Segment assets | 546,752 | – | 546,752 |
| Unallocated corporate assets | | | 469,377 |
| Consolidated total assets | | | 1,016,129 |
| Liabilities: | | | |
| Segment liabilities | 2,926 | – | 2,926 |
| Unallocated corporate liabilities | | | 373,607 |
| Consolidated total liabilities | | | 376,533 |
| **OTHER INFORMATION** | | | |
| Allowance for doubtful debts | – | 366 | 366 |
| Capital expenditure | 14,307 | 277 | 14,584 |
| Unallocated capital expenditure | | | 2,356 |
| | | | 16,940 |
| Depreciation | 1,335 | 962 | 2,297 |
| Unallocated depreciation | | | 127 |
| | | | 2,424 |
| Amortisation of intangible assets | – | 3,268 | 3,268 |
| Imputed interest on convertible notes | – | – | 22,915 |
| Share-based payment expenses | – | – | 32,803 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 5. SEGMENT INFORMATION (continued)

**For the year ended 31 December 2006**

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

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 5. SEGMENT INFORMATION (continued)

**For the year ended 31 December 2006 (continued)**

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

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 6. 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:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **FROM CONTINUING OPERATION** | | |
| Turnover | | |
| Telemedia service income in relation to: | | |
| – Telecom value-added services | **21,476** | 5,270 |
| – Advertising services | **27,872** | – |
| – Programme production | **3,857** | – |
| – Others | **4,631** | 1,986 |
| Advertising income | **564** | – |
| | **58,400** | 7,256 |
| Other revenue | | |
| Interest income | **8,283** | 142 |
| Other income | **113** | – |
| | **8,396** | 142 |
| Total revenue | **66,796** | 7,398 |
| **FROM DISCONTINUED OPERATION** | | |
| Turnover | | |
| Sales of medicine | **6,426** | 11,346 |
| Other revenue | | |
| Interest income | **8** | – |
| Other income | **–** | 4 |
| | **8** | 4 |
| Total revenue | **6,434** | 11,350 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 7. OTHER GAINS AND LOSSES

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| **FROM CONTINUING OPERATION** | | |
| Fair value gain on derivative component of convertible notes *(note 27)* | **42,413** | – |
| Issuing cost allocated to derivative component of convertible notes | **(9,630)** | – |
| Net foreign exchange loss | **(6,864)** | (4) |
| Loss on disposal of property, plant and equipment | **(8)** | – |
| Loss on disposal of available-for-sale investment | **(103)** | – |
| | **25,808** | (4) |
| **FROM DISCONTINUED OPERATION** | | |
| Loss on disposal of property, plant and equipment | **(55)** | (8) |
| | **(55)** | (8) |

## 8. FINANCE COSTS

Finance costs comprise the following:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| **FROM CONTINUING OPERATION** | | |
| Imputed interest on convertible notes *(note 27)* | **22,915** | 1,201 |
| Finance lease charges | **1** | – |
| Interest on bank loans, overdrafts and other borrowings wholly repayable within five years | **–** | 386 |
| | **22,916** | 1,587 |
| **FROM DISCONTINUED OPERATION** | | |
| Interest on other borrowings wholly repayable within five years | **13** | – |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 9. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging *(note i)*:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Staff costs (excluding directors' remuneration *(note 10)*) *(note (iii))* | | |
| Salaries and wages | **8,692** | 4,983 |
| Pension fund contributions | **1,540** | 65 |
| Share-based payments | **22,307** | 6,987 |
| | **32,539** | 12,035 |
| Cost of services | **39,759** | 8,664 |
| Cost of inventories sold | **3,257** | 5,547 |
| Provision for inventories *(note (ii))* | **12** | 1,433 |
| Amortisation of Chinese medicine intellectual property and knowhow | **3,268** | 4,236 |
| Depreciation | **2,424** | 1,443 |
| Allowance for doubtful debts | **366** | 63 |
| Impairment loss of goodwill | **–** | 30,918 |
| Auditor's remuneration | **1,580** | 858 |

(i) The disclosures presented in this note include those amounts charged in respect of the discontinued operation.

(ii) Provision for inventories is included in "Cost of sales" in the consolidated income statement.

(iii) At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2006: Nil).

## 10. DIRECTORS' REMUNERATION

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Directors' Fees | | |
| Executive Directors | **1,800** | 215 |
| Independent non-executive Directors | **458** | 300 |
| Basic remuneration, housing, other allowances and benefits in kind | **11,258** | 6,313 |
| Share-based payments | **10,496** | 12,515 |
| Pension fund contributions | **38** | 72 |
| | **24,050** | 19,415 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 10. DIRECTORS' REMUNERATION (continued)

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

**For year ended 31 December 2007**

| | Directors' fees HK$'000 | Remuneration, discretionary bonuses, allowances and benefits in kind HK$'000 | Share-based payments HK$'000 | Compensation for loss HK$'000 | Pension fund contributions HK$'000 | 2007 Total HK$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Guo Duen How, Tom (i), (vi) | – | 50 | 193 | 143 | 6 | **392** |
| Kao Ying Lun (ii), (vi) | – | 300 | 1,458 | 995 | 2 | **2,755** |
| Lu Xing (v) | 300 | 500 | 1,353 | – | – | **2,153** |
| Wang Chun | 750 | 1,250 | 1,746 | – | – | **3,746** |
| Wu Fred Fong (v) | – | 5,750 | 2,434 | – | 30 | **8,214** |
| Yu Jianmeng (v) | – | 1,020 | 348 | – | – | **1,368** |
| Zhang Lijun | 750 | 1,250 | 1,823 | – | – | **3,823** |
| **Independent Non-executive Directors** | | | | | | |
| Choy Tak Ho (iii) | 100 | – | 146 | – | – | **246** |
| Loke Yu, Alias Loke Hoi Lam | 170 | – | 383 | – | – | **553** |
| Tsui Chun Chung, Arthur (iv) | 100 | – | 146 | – | – | **246** |
| Wang Zhichen | 44 | – | 233 | – | – | **277** |
| Wang Linan | 44 | – | 233 | – | – | **277** |
| | 2,258 | 10,120 | 10,496 | 1,138 | 38 | **24,050** |

(i) resigned on 15 March 2007

(ii) resigned on 1 April 2007

(iii) retired on 28 May 2007

(iv) resigned on 7 June 2007

(v) resigned on 31 January 2008

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 10. DIRECTORS' REMUNERATION (continued)

**For the year ended 31 December 2006**

| | Directors' fees HK$'000 | Remuneration, discretionary bonuses, allowances and benefits in kind HK$'000 | Share-based payments HK$'000 | Pension fund contributions HK$'000 | 2006 Total HK$'000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Fung Chi Kin (vii) | – | – | – | – | – |
| Guo Duen How, Tom | – | 220 | 1,869 | 12 | 2,101 |
| Ho Yuk Ming, Hugo (vii) | – | – | – | – | – |
| Kao Ying Lun | – | 2,110 | 2,007 | 30 | 4,147 |
| Li Mingke (vii) | – | – | – | – | – |
| 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 (vii) | – | – | – | – | – |
| Zhao Songyi (vii) | – | – | – | – | – |
| **Independent Non-executive Directors** | | | | | |
| Choy Tak Ho | 100 | – | 180 | – | 280 |
| Loke Yu, Alias Loke Hoi Lam | 100 | – | 180 | – | 280 |
| Loo Chung Keung, Steve (vii) | – | – | – | – | – |
| Tsui Chun Chung, Arthur | 100 | – | 180 | – | 280 |
| | 515 | 6,313 | 12,515 | 72 | 19,415 |

(vi) These directors resigned in early 2006 who did not receive any directors' fees, remuneration, allowances or any benefits in kind during 2006.

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

## 11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Group during 2006 and 2007 included the directors, details of whose remuneration are set out in note 10 above.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 12. INCOME TAX

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

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the subsidiaries of the Group is calculated based the statutory tax rate of 33%, except for VODone Information Engineering Co., Ltd ("TMD2") which is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%. TMD2 has also obtained a tax concession from local tax authority in which the Company was fully exempted from PRC income tax for year 2006 to 2008, followed by a 50% reduction in the PRC income tax for the next 3 years, 2009 to 2011.

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

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Profit/(loss) before tax from | | |
| – continuing operation | **(74,058)** | (71,053) |
| – discontinued operation | **11,872** | (42,074) |
| | **(62,186)** | (113,127) |
| Taxation calculated at PRC income tax of 33% | **(20,521)** | (37,332) |
| Tax effect of non-taxable income | **(13,262)** | – |
| Tax effect of expenses not deductible for taxation purposes | **10,392** | 7,413 |
| Deferred tax assets not recognised | **13,123** | 11,959 |
| Effect of tax rates in foreign jurisdictions | **10,268** | 17,960 |
| Income tax for the year | **–** | – |

**(c)** **New tax law of the PRC**

On 16 March 2007, the National People's Congress promulgated the PRC Enterprise Income Tax Law (the "New Tax Law"), which became effective from 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law.

According to the New Tax Law, the standard enterprise tax rate for enterprises in the PRC will be reduced from 33% to 25% with effective from 1 January 2008. However, a "high-technology company" will continue to be entitled to a reduced corporate income tax rate of 15%. The detailed application of the newly introduced preferential tax policies have yet to be made public.

In addition, under the New Tax Law, a withholding tax may be applied on the gross amount of dividends received by the Group from its PRC subsidiaries after 1 January 2008. According to the Implementation Rules and the Double Tax Arrangement between Hong Kong SAR and PRC, the applicable withholding tax rate for the PRC subsidiaries of the Group is a reduced rate of 5%.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 13. DISCONTINUED OPERATION

On 22 June and 14 September 2007, the Company's indirect 94% subsidiary, Star Wisdom Investments Limited ("Star Wisdom") entered into an agreement and a supplemental agreement 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$27,778,400). Huayi was owned as to 60% by Star Wisdom and 40% by 華和藥業股份有限公司 ("Huche"), a subsidiary of China National Medicine. Accordingly, as disclosed in the Company's circular dated 28 September 2007, the disposal was considered a connected transaction. The disposal was completed in October 2007.

The profit/(loss) for the year from the discontinued operation is analysed as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Turnover | 6,426 | 11,346 |
| Cost of sales | (3,269) | (6,980) |
| Gross profit | 3,157 | 4,366 |
| Other revenue | 8 | 4 |
| Selling and distribution costs | (2,721) | (6,327) |
| Administrative expenses | (6,346) | (9,199) |
| Finance costs | (13) | – |
| Impairment of goodwill | – | (30,918) |
| Loss before tax | (5,915) | (42,074) |
| Income tax | – | – |
| Loss for the year from the discontinued operation | (5,915) | (42,074) |
| Gain on disposal of a subsidiary | 17,787 | – |
| | 11,872 | (42,074) |
| **Attributable to:** | | |
| Equity holders of the Company | 14,238 | (37,162) |
| Minority interests | (2,366) | (4,912) |
| | 11,872 | (42,074) |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 13. DISCONTINUED OPERATION (continued)

The net cash flows of the discontinued operation dealt with in the consolidated financial statements for the years are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Net cash outflow from** | | |
| Operating activities | **(769)** | (61) |
| Investing activities | **(263)** | (88) |
| Financing activities | **–** | – |
| | **(1,032)** | (149) |

## 14. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders for the year ended 31 December 2007 dealt with in the financial statements of the Company is approximately HK$48,045,000 (2006: HK$64,161,000) *(note 31)*.

## 15. LOSS PER SHARE

| | **2007** | 2006 |
|---|---|---|
| | **HK cents** | HK cents |
| Basic (Loss)/earnings per share from: | | |
| – continued operation | **(4.7)** | (9.0) |
| – discontinued operation | **0.9** | (4.6) |
| Total loss per share | **(3.8)** | (13.6) |

The calculation of basic loss per share from continuing and discontinued operations attributable to the equity holders of the Company is based on the following data:

**Loss**

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss for the year attributable to equity holders of the Company | **(59,680)** | (110,274) |
| Less: | | |
| (Profit)/loss for the year from discontinued operation used in the calculation of basic loss per share from discontinued operation | **(14,238)** | 37,162 |
| Loss for the year used in the calculation of basic loss per share from continuing operation | **(73,918)** | (73,112) |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 15. LOSS PER SHARE (continued)

**Number of shares**

| | **2007** | 2006 |
|---|---|---|
| Issued ordinary shares at 1 January | **1,390,756,673** | 636,650,673 |
| Effect of shares issued on placing/subscription | **–** | 100,086,844 |
| Effect of shares issued on acquisition of a subsidiary | **–** | 72,876,712 |
| Effect of shares issued on conversion of convertible notes | **104,402,165** | – |
| Effect of shares issued on exercise of share options | **85,181,150** | 1,372,712 |
| Weighted average number of ordinary shares (basic) at 31 December | **1,580,339,988** | 810,986,941 |

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the convertible notes (note 27) issued by the Company based on the initial conversion price of HK$4.10 per share, and the Group's loss attributable to equity holders of the Company is adjusted to eliminate the fair value gain on derivative financial instrument, imputed interest and issuing cost in relation to the convertible notes.

| **Loss** | **From continued and discontinued operations** HK$'000 | **From continued operation** HK$'000 |
|---|---|---|
| Loss for the year used in the calculation of basic loss per share | (59,680) | (73,918) |
| Effect of dilutive potential ordinary shares: | | |
| – Fair value gain on derivative component of convertible notes | (42,413) | (42,413) |
| – Imputed interest on convertible notes | 22,915 | 22,915 |
| – Issuing cost allocated to derivative component of convertible notes | 9,630 | 9,630 |
| Loss for the year used in the calculation of diluted loss per share | (69,548) | (83,786) |
| Diluted loss per share (HK Cents) | (4.3) | (5.1) |

| **Number of shares** | **2007** |
|---|---|
| Weighted average number of ordinary shares in issue | 1,580,339,988 |
| Adjustment for assumed conversion of convertible notes | 48,219,178 |
| Weighted average number of ordinary shares for diluted earnings per share | 1,628,559,166 |

Diluted loss per share was not disclosed for the year ended 31 December 2006 as the share options and convertible notes outstanding as of that date had an anti-dilutive effect on the basic loss per share.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 16. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Plant, machinery and equipment HK$'000 | Furniture, fixtures, computer hardware and software and office equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2006 | – | – | 7,365 | 999 | 8,364 |
| Acquisition of subsidiaries *(note 32)* | – | – | 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 |
| Disposal of a subsidiary *(note 33)* | – | – | (8,465) | (1,142) | (9,607) |
| Additions | 1,470 | 2,568 | 12,220 | 682 | 16,940 |
| Disposals | – | – | (213) | (6) | (219) |
| Exchange adjustments | – | 4 | 689 | 76 | 769 |
| **At 31 December 2007** | **1,470** | **2,629** | **12,934** | **972** | **18,005** |
| Accumulated depreciation: | | | | | |
| At 1 January 2006 | – | – | 1,318 | 442 | 1,760 |
| Acquisition of subsidiaries *(note 32)* | – | – | 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 |
| Disposal of a subsidiary *(note 33)* | – | – | (3,842) | (825) | (4,667) |
| Charge for the year | 98 | 320 | 1,853 | 153 | 2,424 |
| Written back on disposal | – | – | (156) | – | (156) |
| Exchange adjustments | – | 12 | 461 | 39 | 512 |
| **At 31 December 2007** | **98** | **332** | **1,130** | **27** | **1,587** |
| Net book value: | | | | | |
| **At 31 December 2007** | **1,372** | **2,297** | **11,804** | **945** | **16,418** |
| At 31 December 2006 | – | 57 | 5,889 | 702 | 6,648 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

### Company

| | Leasehold improvements HK$'000 | Plant, machinery and equipment HK$'000 | Furniture, fixtures and office equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2006 and 31 December 2006 | – | – | – | – |
| Additions | 1,470 | 830 | 56 | 2,356 |
| **At 31 December 2007** | **1,470** | **830** | **56** | **2,356** |
| Accumulated depreciation: | | | | |
| At 1 January 2006 and 31 December 2006 | – | – | – | – |
| Charge for the year | 98 | 27 | 2 | 127 |
| **At 31 December 2007** | **98** | **27** | **2** | **127** |
| Net book value: | | | | |
| **At 31 December 2007** | **1,372** | **803** | **54** | **2,229** |
| At 31 December 2006 | – | – | – | – |

During the year, office equipment of the Group and the Company of HK$41,000 (2006: Nil) was purchased under a new finance lease. At the balance sheet date, the net book value of this equipment held under the finance lease was HK$40,000 (2006: Nil). The related depreciation charge was HK$1,000 (2006: Nil).

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 17. INTANGIBLE ASSETS

### Group

| | Chinese medicine intellectual property and knowhow HK$'000 |
|---|---|
| Cost: | |
| At 1 January 2006 | 38,634 |
| Exchange adjustments | 1,258 |
| At 31 December 2006 | 39,892 |
| Exchange adjustments | 1,677 |
| Disposal of a subsidiary *(note 33)* | (41,569) |
| **At 31 December 2007** | **–** |
| Accumulated amortisation: | |
| At 1 January 2006 | 12,334 |
| Charge for the year | 4,236 |
| Exchange adjustments | 402 |
| At 31 December 2006 | 16,972 |
| Charge for the year | 3,268 |
| Exchange adjustments | 757 |
| Disposal of a subsidiary *(note 33)* | (20,997) |
| **At 31 December 2007** | **–** |
| Net book value: | |
| **At 31 December 2007** | **–** |
| At 31 December 2006 | 22,920 |

## 18. 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 did not have a quoted market price in active market and for which other methods of reasonably estimating its fair value were inappropriate, the investment was stated at cost less impairment. On 9 February 2007, the investment was disposed of to a third party without consideration.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 19. INTEREST IN AN ASSOCIATE

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Share of net assets | **40** | 57 |
| Goodwill | **47,994** | 47,994 |
| | **48,034** | 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:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total assets | **25,898** | 5,551 |
| Total liabilities | **(25,817)** | (5,435) |
| Net assets | **81** | 116 |
| Group's share of associate's net assets | **40** | 57 |
| Revenue | **26,709** | 5,604 |
| (Loss)/profit for the year | **(42)** | 2 |
| Group's share of associate's (loss)/profit for the year | **(20)** | 1 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 20. GOODWILL

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

| | **Group** |
|---|---|
| | HK$'000 |
| Cost: | |
| At 1 January 2006 | 77,974 |
| Arising from acquisition of subsidiaries *(note 32)* | 231,792 |
| At 31 December 2006 | 309,766 |
| Disposal of a subsidiary *(note 33)* | (77,974) |
| **At 31 December 2007** | **231,792** |
| Accumulated impairment: | |
| At 1 January 2006 | 40,950 |
| Impairment loss recognised in the year | 30,918 |
| At 31 December 2006 | 71,868 |
| Disposal of a subsidiary *(note 33)* | (71,868) |
| **At 31 December 2007** | **–** |
| Carrying amount: | |
| **At 31 December 2007** | **231,792** |
| At 31 December 2006 | 237,898 |

Goodwill is allocated to the Group's cash generating units ("CGUs") identified to country of operation and business segment. The carrying amount, prior to impairment losses, as at 31 December 2007 was related to the Group's Chinese Medicine business ("Chinese medicine CGU") and tele-media service business ("Tele-media CGU") in the PRC and was allocated as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Chinese medicine CGU | **–** | 77,974 |
| Tele-media CGU | **231,792** | 231,792 |
| | **231,792** | 309,766 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 20. GOODWILL (continued)

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. 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. The discount rates applied in the valuation ranged from 15.31% – 16.31% 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 10% respectively were adopted.

The recoverable amount of the Tele-media CGU is higher than their carrying amounts with reference to the valuation. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

During the year ended 31 December 2007, the Chinese Medicine CGU was disposed of. For details of the disposal, please refer to note 33 to the financial statements.

## 21. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Unlisted shares/capital contributions, at cost | **442,521** | 270,158 |
| Due from subsidiaries | **618,607** | 518,867 |
| | **1,061,128** | 789,025 |
| Less: Provision for impairment | **(467,539)** | (467,539) |
| | **593,589** | 321,486 |

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

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 21. INTERESTS IN SUBSIDIARIES (continued)

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 by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Clear Concept International Limited ("Clear Concept") | British Virgin Islands ("BVI") | US$200 | 51% | – | Investment holding |
| Bentex (Hong Kong) Limited ("Bentex") | Hong Kong | HK$2 | – | 51% | Investment holding |
| 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") (i) | PRC | RMB24,923,254 | 99.69% | – | Provision of technical, promotional and advertising services |
| 北京日升升國際廣告有限公司 (Beijing Union Times Entertainment Culture Development Co., Ltd) ("TMD3")(i) | PRC | RMB20,000,000 | 100% | – | Provision of advertisement production 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")(i) | PRC | RMB20,000,000 | 97.09% | – | Provision of entertainment production services |
| China Medicine International Limited | Hong Kong | HK$2 | 100% | – | Provision of administrative services |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 21. 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 by the Company Direct | Attributable equity interest held by the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Yacata Limited | BVI | US$1 | 100% | – | Investment holding |
| Korning Investments Limited | BVI | US$1 | – | 94% | Investment holding |
| Star Wisdom Investments Limited | BVI | US$1 | – | 94% | Investment holding |

*Note i* These companies are foreign investment enterprises established in the PRC.

## 22. INVENTORIES

| | Group 2007 HK$'000 | Group 2006 HK$'000 |
|---|---|---|
| Raw materials | **–** | 989 |
| Work in progress | **–** | 1,962 |
| Finished goods | **–** | 4,483 |
| | **–** | 7,434 |

## 23. ACCOUNTS RECEIVABLE

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

| | Group 2007 HK$'000 | Group 2006 HK$'000 |
|---|---|---|
| Within 1 month | **3,205** | – |
| 2 to 3 months | **14** | 40 |
| 4 to 6 months | **1,410** | 199 |
| 7 to 12 months | **–** | 931 |
| Over 1 year | **–** | 486 |
| | **4,629** | 1,656 |

The credit period of the Group's accounts receivable ranges from 30 days to 60 days.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 23. ACCOUNTS RECEIVABLE (continued)

The movement in the allowance for doubtful debts during the year is as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| At beginning of year | 22,230 | 22,167 |
| Impairment loss recognised | 366 | 63 |
| Disposal of a subsidiary | (22,596) | – |
| At end of year | – | 22,230 |

The ageing analysis of accounts receivable that are neither individually nor collectively considered to be impaired is as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Neither past due nor impaired | 3,205 | – |
| Less than 1 month past due | 13 | – |
| 1 to 3 months past due | 1,411 | – |
| | 1,424 | – |
| | 4,629 | – |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Other receivables [i] | **28,126** | 209 | **–** | – |
| Prepayments [ii] | **65,911** | 1,731 | **38** | 73 |
| Deposits [iii, iv] | **33,026** | 660 | **2,789** | – |
| | **127,063** | 2,600 | **2,827** | 73 |

(i) Included in other receivables as at 31 December 2007 was an amount of approximately HK$27,778,000 receivable in respect of the disposal of the discontinued operation (note 33).

(ii) Included in prepayments as at 31 December 2007 were prepayments for the acquisition of property, plant and equipment and prepaid promotion, advertising and agency fees of approximately HK$10,399,000 (2006: Nil) and HK$51,157,000 (2006: Nil) respectively.

(iii) Included in deposits as at 31 December 2007 was a refundable deposit of approximately HK$19,016,000 paid to Sino Sky Telecom Industry Group ("Sino Sky"), the minority shareholder of TMD2 in relation to the promotion and marketing agreement entered between TMD2 and Sino Sky during the year. The deposit is refundable within twelve months from the year end date.

(iv) In October 2007, the Group's subsidiary, TMD2, signed a co-operation contract with an independent third party whereby TMD2 will inject funds up to RMB20,000,000 and the independent third party will be in charge of organising and production of the casting poll show for the 80-episode TV series "Water Margin". Income generated and expenses incurred in respect of the jointly controlled operation are to be equally shared and be recorded in the respective joint venture partner's accounts. As at 31 December 2007, the balance of deposits paid to the independent third party amounted to approximately HK$9,742,000. On 11 December 2007, TMD2 together with the independent third party, entered into an agreement with Anhui TV, a provincial television broadcasting station in the PRC to jointly host and broadcast the casting poll show for the 80-episode TV series "Water Margin" , details as disclosed in the Company's announcement dated 12 December 2007.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 25. ACCOUNTS PAYABLE

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Within 1 month | **–** | 3,446 |
| 2 to 3 months | **–** | 553 |
| 4 to 6 months | **–** | – |
| 7 to 12 months | **–** | 1,072 |
| Over 1 year | **–** | 403 |
| | **–** | 5,474 |

## 26. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2007, the Group and the Company had obligations under a finance lease repayable as follows:

| | Group and Company | | | |
|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **11** | – | **8** | – |
| In the second to fifth year inclusive | **41** | – | **32** | – |
| | **52** | – | | |
| Less: Future finance charge | **(12)** | – | | |
| Present value of lease obligations | **40** | – | **40** | – |

It is the Group's policy to lease certain of its equipment under finance lease. The lease term is 5 years. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under the finance lease are secured by the lessor's title to the leased asset.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 27. CONVERTIBLE NOTES

The movement of the liability and derivative components of the convertible notes during the years are set out below:

| | Derivative component HK$'000 | Liability component HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2006 | – | – | – |
| Issue of Consideration Convertible *Note* [(i)] | – | 49,826 | 49,826 |
| Imputed interest *(note 8)* | – | 1,201 | 1,201 |
| **At 31 December 2006** | **–** | **51,027** | **51,027** |
| Converted to ordinary shares [(ii)] | – | (51,027) | (51,027) |
| Issue of convertible notes [(iii)] | 97,444 | 312,556 | 410,000 |
| Issuing cost | – | (30,888) | (30,888) |
| Imputed interest *(note 8)* | – | 22,915 | 22,915 |
| Change in fair value *(note 7)* | (42,413) | – | (42,413) |
| **At 31 December 2007** | **55,031** | **304,583** | **359,614** |

(i) 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 ordinary 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 $16,492,000 representing the value of the equity conversion component, is included in shareholders' equity in the convertible note reserve.

(ii) On 4 January 2007, 105,267,376 ordinary shares were issued on conversion of the Consideration Convertible Note at the conversion price of HK$0.63 per share (par value of HK$0.01 each) (note 31(vi)).

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 27. CONVERTIBLE NOTES (continued)

(iii) 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 "Notes"). The Notes carry a coupon interest rate of 1.5% per annum and will mature on the second anniversary from the date of issue (the "Maturity Date"). The Notes are convertible into ordinary shares of the Company with a par value of HK$0.01 at the initial conversion price of HK$4.1 per share (the "Conversion Price") at any time following the 7th day after the date of issue until 7 days prior to the Maturity Date.

The Conversion Price is to be adjusted if the arithmetic average of the closing price of the ordinary shares of the Company for each day during the 20 consecutive trading days immediately prior to 30 days before each of the date falling on the 6th month, the 12th month and the 18th month anniversaries respectively from the issue date of the Notes (each being a "Reset Date") is less than the Conversion Price then in effect, the Conversion Price of the Notes shall be automatically adjusted downwards to such 20-day average price on the Reset Day, provided that any such Conversion Price in no event shall be less than 85% of the initial Conversion Price (subject to the similar usual applicable anti-dilution adjustments in respect of the Conversion Price).

If, at any time prior to the Maturity Date, the closing price of the Company's ordinary shares quoted by the Stock Exchange for any 20 trading days out of 30 consecutive trading days is equal to or exceeds 150% of the Conversion Price prevailing on that day, then the principal amount of each Note then outstanding shall be deemed to be converted on the business day next following the last of those 20 trading days.

If the Notes have not been converted, they will be redeemed by the Company at the end of the Maturity Date at par. The Notes also provide that the Company or any of its subsidiaries may at any time and from time to time purchase the Notes at any price as may be agreed between the Company or such subsidiary and the relevant noteholder. Any Notes so purchased shall be cancelled by the Company. The subscription of the Notes was completed on 23 July 2007.

The fair value of the derivative component of the Notes was calculated using the Binomial Model with the major inputs as at 9 July 2007 and 31 December 2007 as follows:

| | **9 July 2007** | **31 December 2007** |
|---|---|---|
| Share price | **$4.01** | **$1.98** |
| Exercise price | **$4.01** | **$4.01** |
| Volatility | **41.93%** | **108.71%** |
| Risk free rate | **4.328%** | **2.564%** |

During the year, as there was a significant decrease in the share price of the Company, the fair value of the derivative component of the Notes decreased, resulting in a fair value gain of approximately HK$42,413,000.

Interest expense on the Notes is calculated using the effective interest method by applying the effective interest rate of 20.65% per annum to the liability component of the Notes.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 28. OTHER BORROWINGS

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Other borrowings – unsecured | **1,414** | 3,529 |
| Other borrowings repayable: | | |
| – within one year | **1,414** | 1,414 |
| – after one year | **–** | 2,115 |
| | **1,414** | 3,529 |
| Portion classified as current liabilities | **(1,414)** | (1,414) |
| Long term portion | **–** | 2,115 |

As at 31 December 2007, the Group did not have any other bank borrowings, corporate guarantee or pledge of assets remained outstanding from the prior year.

## 29. 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:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Tax losses | **23,604** | 19,941 | **14,744** | 16,287 |

Out of the tax losses of the Group as at 31 December 2007, approximately HK$27,209,000 (2006: Nil) has an expiry period of five years.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 30. SHARE CAPITAL

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| *Authorised:* | | |
| 50,000,000,000 ordinary shares of HK$0.01 each | **500,000** | 500,000 |
| *Issued and fully paid:* | | |
| 1,644,074,049 (2006: 1,390,756,673) ordinary shares of HK$0.01 each | **16,441** | 13,908 |

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

| | **Number of ordinary shares** | **Share capital** HK$'000 |
|---|---|---|
| At 1 January 2006 | 636,650,673 | 6,367 |
| Shares issued on placing/subscription *(note 31(ii), (iv))* | 467,186,000 | 4,672 |
| Shares issued on acquisition of a subsidiary *(note 31(iii))* | 280,000,000 | 2,800 |
| Shares issued on exercise of share options *(note 31(v))* | 6,920,000 | 69 |
| **At 31 December 2006** | **1,390,756,673** | **13,908** |
| Shares issued on conversion of convertible notes *(note 31(vi))* | 105,267,376 | 1,053 |
| Shares issued on exercise of share options *(note 31(vii))* | 148,050,000 | 1,480 |
| **At 31 December 2007** | **1,644,074,049** | **16,441** |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 31. RESERVES

**Company**

| | Share premium HK$'000 | Contribution surplus HK$'000 *(note i)* | Convertible note reserve HK$'000 *(note 27)* | Share-based compensation reserve HK$'000 *(note 36)* | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2006 | 109,885 | 76,838 | - | 3,971 | (180,179) | 10,515 |
| Total recognised income and expense for the year – loss for the year | - | - | - | - | (64,161) | (64,161) |
| Shares issued on placing *(notes ii & iv)* | 255,962 | - | - | - | - | 255,962 |
| Shares allotted for acquisition of a subsidiary *(note iii)* | 173,600 | - | - | - | - | 173,600 |
| Shares issued on exercise of share options *(note v)* | 7,605 | - | - | (1,777) | - | 5,828 |
| Recognition of share-based payments | - | - | - | 19,502 | - | 19,502 |
| Cancellation of share options | - | - | - | (1,620) | 1,620 | - |
| Issue of Consideration Convertible Note (equity portion) *(note 27(i))* | - | - | 16,492 | - | - | 16,492 |
| **Balance at 31 December 2006** | 547,052 | 76,838 | 16,492 | 20,076 | (242,720) | 417,738 |
| Total recognised income and expense for the year – loss for the year | - | - | - | - | (48,045) | (48,045) |
| Shares issued on conversion of Consideration Convertible Note *(note vi)* | 66,467 | - | (16,492) | - | - | 49,975 |
| Shares issued on exercise of share options *(note vii)* | 224,847 | - | - | (31,971) | - | 192,876 |
| Recognition of share-based payments | - | - | - | 32,803 | - | 32,803 |
| Cancellation of share options | - | - | - | (3,085) | 3,085 | - |
| **Balance at 31 December 2007** | 838,366 | 76,838 | - | 17,823 | (287,680) | 645,347 |

*Notes:*

(i) The Group's and the Company's contributed surplus is 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 therefor 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 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.

(iii) As referred to in note 27(i), as part of the 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.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 31. RESERVES (continued)

*Notes: (continued)*

(iv) 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.

(v) During 2006, 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.

(vi) On 4 January 2007, the entire Consideration Convertible Note with principal amount of HK$ 66,318,447 was converted into 105,267,376 new ordinary shares of the Company. The excess of the share consideration over the nominal value of the issued shares was credited to the share premium account.

(vii) During 2007, a total of 148,050,000 new shares were issued on exercise of share options by eligible participants. The exercise prices range from HK$0.73 to HK$1.87 per share.

The new shares issued in 2007 referred to in notes (vi) and (vii) rank *pari passu* in all respects with the existing share of the Company prevailing at time of issue.

(viii) In accordance with the Company Law of the PRC and the Articles of Association of 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) (collectively referred to as "statutory reserves") respectively. During 2007, Huayi was disposed of, further details are disclosed in note 33. The reserve was credited to accumulated losses.

## 32. 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 a 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. The balance of capital commitments in respect of capital contributions as at 31 December 2006 was HK$171,300,000. In December 2006, a further cash consideration of RMB13,531,000 was paid in respect of TMD2.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 32. ACQUISITION OF SUBSIDIARIES (continued)

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

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

| | HK$'000 |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment *(note 16)* | 57 |
| Interest in an associate | 48,050 |
| Available-for-sale investment | 99 |
| Other receivables | 116 |
| Cash and cash equivalents | 1 |
| Other payables | (767) |
| | 47,556 |
| Minority interests | (23,026) |
| Goodwill *(note 20)* | 231,792 |
| Total consideration | 256,322 |
| Satisfied by: | |
| Cash | 13,604 |
| 280,000,000 Consideration Shares at HK$0.63 each *(notes 27(i) and note 31(iii))* | 176,400 |
| Consideration Convertible Note *(note 27)* | 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 31 December 2006.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 33. DISPOSAL OF A SUBSIDIARY

As further disclosed in note 13 to the financial statements, the Group's 94% indirectly owned subsidiary disposed of its 60% owned subsidiary Huayi during the year. The net assets of the subsidiary disposed of at the date of disposal were as follows:

| | 2007<br>HK$'000 |
|---|---|
| Property, plant and equipment *(note 16)* | 4,940 |
| Intangible assets *(note 17)* | 20,572 |
| Bank balances and cash | 1,613 |
| Accounts receivable | 1,923 |
| Other receivables | 1,119 |
| Inventories | 7,191 |
| Accounts payable | (731) |
| Other payables and accruals | (29,265) |
| Net identifiable assets | 7,362 |
| Attributable goodwill *(note 20)* | 6,106 |
| Release of translation reserve | (532) |
| Minority interests | (2,945) |
| Gain on disposal of a subsidiary | 17,787 |
| Total consideration of disposal | 27,778 |
| **Satisfied by:** | |
| Other receivable *(note i)* | 27,778 |
| Net cash inflow arising on disposal: | |
| Bank balances and cash acquired | (1,613) |
| | 26,165 |

(i) The cash consideration was received on 4 January 2008.

(ii) The contributions to the Group's turnover and the Group's operating results by the subsidiary disposed of are disclosed in note 13 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 34. OPERATING LEASE ARRANGEMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Minimum lease payments paid under operating leases during the year | **7,838** | 2,805 | **2,451** | 1,560 |

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of its rental premises falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **6,433** | 4,323 | **2,471** | – |
| In the second to fifth years, inclusive | **3,356** | 6,219 | **3,295** | – |
| | **9,789** | 10,542 | **5,766** | – |

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

## 35. COMMITMENTS

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for: | | |
| – Acquisition of property, plant and equipment | **5,950** | – |
| – Casting Poll show *(note 24(iv))* | **9,917** | – |
| – Capital contributions to subsidiaries | **–** | 171,300 |
| – Acquisition of investments | **–** | 20,247 |

The Company did not have any contracted capital commitments at the balance sheet date (2006: Nil).

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 36. 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 fair value of the grant of share options, representing the fair value of services received in return for share options granted, were recognised 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 as agreed with the resigned directors. During 2006 and 2007, 4,500,000 and 10,500,000 share options were exercised respectively.

On 1 August 2006, a total of 43,760,000 share options were granted to the directors of the Group and eligible participants. 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 2006 and 2007, 2,160,000 and 37,600,000 of these share options were exercised respectively.

On 8 November 2006, a total of 32,300,000 shares options were granted to the directors of the Group and eligible participants. 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$0.73 per share. The options may be exercisable during the period from 8 November 2006 to 7 November 2009. During 2006 and 2007, 260,000 and 27,660,000 of these share options were exercised respectively.

On 8 March 2007, a total of 151,435,000 share options were granted to the directors of the Group and eligible participants. 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. During the year, 71,290,000 of these share options were exercised.

On 17 August 2007, a total of 11,455,000 share options were granted to the directors of the Group and eligible participants. 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$1.87 per share. The options may be exercisable during the period from 17 August 2007 to 16 August 2010. During the year, 1,000,000 of these share options were exercised and 9,955,000 share options were cancelled.

The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised during the year was HK$2.39 (2006: HK$1.58). The options outstanding at the end of the year have a weighted average remaining contractual life of 2.19 years (2006: 2.4 years).

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Employee share option expenses related to the above grants of share option were estimated to be approximately HK$32,803,000 (2006: HK$19,502,000) and were charged to loss for the year. Such expenses were determined with the Black-Scholes valuation model with the following assumptions:

| Date of grant | 8 March 2007 | 17 August 2007 |
|---|---|---|
| Value per option | HK$0.193 | HK$0.309 |
| Price per share at date of grant | HK$1.75 | HK$1.77 |
| Exercise price per share | HK$1.83 | HK$1.87 |
| Standard deviation | 0.4382 | 0.4345 |
| Annual risk-free interest rate | 3.951% | 4.019% |
| Life of options | 3 years | 3 years |
| Dividend yield | 0% | 0% |

The following were the movements of share options during 2007 and 2006:

| Name of participants | At 1 January 2007 | Granted during the year | Exercised during the year | Cancelled during the year | At 31 December 2007 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Guo Duen How, Tom (ii) | 9,300,000 | 1,000,000 | (10,300,000) | - | - |
| Kao Ying Lun (iii) | 8,300,000 | 7,550,000 | (15,850,000) | - | - |
| Lu Xing (vi) | 7,580,000 | 6,100,000 | (9,580,000) | (1,500,000) | 2,600,000 |
| Wang Chun | 7,600,000 | 8,120,000 | (4,000,000) | (1,520,000) | 10,200,000 |
| Wu Fred Fong (vi) | 8,300,000 | 10,700,000 | (15,850,000) | (3,150,000) | - |
| Yu Jianmeng (vi) | 4,100,000 | 1,500,000 | (5,100,000) | - | 500,000 |
| Zhang Lijun | 7,600,000 | 8,520,000 | (7,600,000) | (1,520,000) | 7,000,000 |
| **Independent non-executive directors** | | | | | |
| Choy Tak Ho (iv) | 1,360,000 | 755,000 | (2,115,000) | - | - |
| Loke Yu, Alias Loke Hoi Lam | 760,000 | 1,520,000 | (910,000) | (765,000) | 605,000 |
| Tsui Chun Chung, Arthur (v) | - | 755,000 | - | - | 755,000 |
| Wang Zhichen | - | 750,000 | - | (750,000) | - |
| Wang Linan | - | 750,000 | - | (750,000) | - |
| Subtotal | 54,900,000 | 48,020,000 | (71,305,000) | (9,955,000) | 21,660,000 |
| **Other eligible participants** | 29,240,000 | 114,870,000 | (76,745,000) | - | 67,365,000 |
| Total | 84,140,000 | 162,890,000 | (148,050,000) | (9,955,000) | 89,025,000 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

| 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 (iv) | 600,000 | 760,000 | – | – | 1,360,000 |
| Loke Yu, Alias Loke Hoi Lam | – | 760,000 | – | – | 760,000 |
| Tsui Chun Chung, Arthur (vi) | 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 |

(i) resigned on 17 February 2006
(ii) resigned on 15 March 2007
(iii) resigned on 1 April 2007
(iv) retired on 28 May 2007
(v) resigned on 7 June 2007
(vi) resigned/retired on 31 January 2008

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 37. RELATED PARTY TRANSACTIONS

| Name of party | Relationship |
|---|---|
| VODone Telemedia Co. Ltd. ("VODONE") | Dr. Zhang Lijun is a shareholder of VODONE |
| Sunview Company Limited ("Sunview") | Owned by an associated person of Mr. Kao Ying Lun |
| WorldVest Capital Limited ("WorldVest") | Messrs. Guo Duen How, Tom and Wu Fred Fong are the directors |
| China National Group Corporation of Traditional and Herbal Medicine ("China National Medicine") | Controlling shareholder of the minority shareholder of Huayi |
| Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Center ("Beijing Huamiao") | A subsidiary of China National Medicine |

(a) In addition to the transactions disclosed elsewhere in these financial statements, the Group entered into the following related party transactions during the year:

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | *Notes* | **HK$'000** | HK$'000 |
| Service fee income earned from an associate, TMD1 | *(i)* | **53,148** | 5,270 |
| Acquisition of property, plant and equipment from VODONE | *(ii)* | **–** | 1,082 |
| Purchase of inventories from VODONE | *(ii)* | **–** | 91 |
| Service fee charged by VODONE | *(iii)* | **–** | 26 |
| Director's quarter expenses paid to Sunview | *(iv)* | **180** | 1,080 |
| Sharing of office services paid to WorldVest | *(v)* | **43** | 516 |
| Purchase of raw materials/herbs from China National Medicine | *(vi)* | **852** | 2,664 |
| Rental expenses paid to Beijing Huamiao | *(vi)* | **471** | 695 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 37. RELATED PARTY TRANSACTIONS (continued)

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

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

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

(iv) 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.

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

(vi) 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.

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Short term benefits | **12,366** | 19,400 |
| Termination benefits *(note 10)* | **1,188** | 7,500 |
| Share-based payments | **10,496** | 12,515 |
| | **24,050** | 39,415 |

*Note:*

Included in short term benefits for the year ended 31 December 2006 was an accrued bonus of HK$20,000,000 payable to certain long service directors. During 2007, HK$13,100,000 have been allocated to the following directors and the balance was paid to consultants and other staff.

| | HK$'000 |
|---|---|
| Guo Duen How, Tom | 2,000 |
| Kao Ying Lun | 5,500 |
| Wu Fred Fong | 5,500 |
| Yu Jianmeng | 100 |
| | 13,100 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 37. RELATED PARTY TRANSACTIONS (continued)

(c) The amounts due from/(to) a related company mainly arising from trading transactions detailed in note (a)(ii) to (iv) above are interest free, unsecured and repayable on demand. The balances as at 31 December 2007 were fully settled in February 2008.

(d) The amount due from an associate mainly arising from the trading transaction detailed in note (a)(i) above is unsecured, interest free and repayable on demand. The balance as at 31 December 2007 was fully settled in February 2008.

## 38. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debts as the aggregate of convertible notes, obligations under finance lease and other borrowings less cash and cash equivalents. Capital comprises all components of equity.

The net debt-to-total capital ratio at 31 December 2006 and 2007 was as follows:

| | *Note* | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|---|
| Obligations under finance lease | *26* | **40** | – |
| Convertible notes | *27* | **359,614** | 51,027 |
| Other borrowings | *28* | **1,414** | 3,529 |
| | | **361,068** | 54,556 |
| Less: Cash and cash equivalents | | **(553,601)** | (206,320) |
| Net debt | | **(192,533)** | (151,764) |
| Capital | | **639,596** | 415,024 |
| **Net debt-to-capital ratio** | | **N/A** | N/A |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 39. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from movements in its own equity share price. These risks are limited by the Group's financial management policies and practices described below.

### Credit risk

The Group's credit risk is primarily attributable to its trade receivables, other receivables and amounts due from a related company and an associate arising from trade transactions. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of third party trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a concentration of credit risk as 62% (2006: 11%) and 100% (2006: 36%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The Directors consider that the credit risk arising from related party trading transactions is minimal as the amounts due from the associate and the related company as at 31 December 2007 were settled in February 2008.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 23.

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 39. FINANCIAL INSTRUMENTS (continued)

### Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay.

| **Group** | **Carrying amount** | **Total contractual undiscounted cash flow** | **Within 1 year or on demand** | **More than 1 year but less than 2 years** | **More than 2 years but less than 5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2007** | | | | | | |
| Other payables and accruals | 14,895 | 14,895 | 14,895 | – | – | – |
| Deposits received | 570 | 570 | 570 | – | – | – |
| Obligations under finance lease | 40 | 52 | 11 | 11 | 30 | – |
| Convertible notes | 359,614 | 422,300 | 6,150 | 416,150 | – | – |
| Other borrowings | 1,414 | 1,414 | 1,414 | – | – | – |
| | 376,533 | 439,231 | 23,040 | 416,161 | 30 | – |
| 2006 | | | | | | |
| Accounts payable | 5,474 | 5,474 | 5,474 | – | – | – |
| Other payables and accruals | 51,430 | 51,430 | 51,430 | – | – | – |
| Deposits received | 11,182 | 11,182 | 11,182 | – | – | – |
| Amount due to a related company | 734 | 734 | 734 | – | – | – |
| Convertible note | 51,027 | 66,318 | 66,318 | – | – | – |
| Other borrowings | 3,529 | 3,529 | 1,414 | – | – | 2,115 |
| | 123,376 | 138,667 | 136,552 | – | – | 2,115 |

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 39. FINANCIAL INSTRUMENTS (continued)

### Liquidity risk (continued)

| Company | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| Other payables and accruals | 11,957 | 11,957 | 11,957 | – | – | – |
| Deposits received | 570 | 570 | 570 | – | – | – |
| Obligations under finance lease | 40 | 52 | 11 | 11 | 30 | – |
| Convertible notes | 359,614 | 422,300 | 6,150 | 416,150 | – | – |
| Amount due to a subsidiary | 1,148 | 1,148 | 1,148 | – | – | – |
| | 373,329 | 436,027 | 19,836 | 416,161 | 30 | – |
| 2006 | | | | | | |
| Other payables and accruals | 27,896 | 27,896 | 27,896 | – | – | – |
| Deposits received | 11,182 | 11,182 | 11,182 | – | – | – |
| Convertible note | 51,027 | 66,318 | 66,318 | – | – | – |
| | 90,105 | 105,396 | 105,396 | – | – | – |

### Interest rate risk

The Group's interest bearing financial liabilities are fixed rate borrowings, comprising convertible notes and obligations from finance lease, thus exposing the Group to fair value interest rate risk. The interest rates and terms of repayment of obligations from finance lease and convertible notes are disclosed in notes 26 and 27 to the financial statements.

### Currency risk

Most of the subsidiaries' functional currency is RMB since majority of the revenue of the Group are derived from operations in the PRC. The RMB is not freely convertible into other currencies however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business. Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

### Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except that the fair value of the liability component of convertible notes with a carrying amount of approximately HK$304,583,000 as at 31 December 2007 (2006: HK$51,027,000), was approximately HK$371,892,000 (2006: HK$49,826,000).

### Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Group. As at the balance sheet date, the Group is exposed to this risk through the conversion rights attached to the convertible notes issued by the Company as disclosed in note 27(iii).

# NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2007

## 40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalences) | **653,974** | 213,619 |
| Available-for-sale investment | **–** | 99 |
| | **653,974** | 213,718 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | **320,932** | 112,194 |
| Derivative component of convertible notes at fair value | **55,031** | – |
| | **375,963** | 112,194 |

## 41. POST BALANCE SHEET EVENT

On 7 January 2008, 300,000 new ordinary shares of the Company were issued on exercise of share options by one eligible participant. The exercise price was HK$1.83 per share. Proceeds from issue of share of HK$549,000 were received before the end of the year.

## 42. COMPARATIVE AMOUNTS

Owing to the disposal of the Group's interests in Huayi during the year, the Group's manufacturing, trading and contracting of Chinese Medicine business was discontinued. Accordingly, the comparative income statement has been presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 13).

## 43. 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 18 April 2008.

# FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements of the Group and reclassified as appropriate, is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Restated) | (Restated) | (Restated) | (Restated) |
| **RESULTS** | | | | | |
| Turnover | | | | | |
| Continuing operations | **58,400** | 7,256 | – | – | – |
| Discontinued operations | **6,426** | 11,346 | 18,007 | 20,863 | 177,949 |
| | **64,826** | 18,602 | 18,007 | 20,863 | 177,949 |
| Profit/(loss) before tax | | | | | |
| Continuing operations | **(74,058)** | (71,053) | (22,815) | (18,645) | (15,906) |
| Discontinued operations | **11,872** | (42,074) | (47,333) | (84,994) | (46,235) |
| | **(62,186)** | (113,127) | (70,148) | (103,639) | (62,141) |
| Tax – Discontinued operations | **–** | – | – | – | (188) |
| Loss for the year | **(62,186)** | (113,127) | (70,148) | (103,639) | (62,329) |
| Attributable to: | | | | | |
| Equity holders of the Company | **(59,680)** | (110,274) | (67,595) | (74,328) | (52,606) |
| Minority interests | **(2,506)** | (2,853) | (2,553) | (29,311) | (9,723) |
| | **(62,186)** | (113,127) | (70,148) | (103,639) | (62,329) |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| Non-current assets | **296,244** | 315,616 | 69,928 | 115,056 | 132,625 |
| Current assets | **719,885** | 222,784 | 16,214 | 16,335 | 82,920 |
| Current liabilities | **(16,887)** | (121,261) | (58,658) | (57,422) | (46,962) |
| Net current assets/(liabilities) | **702,998** | 101,523 | (42,444) | (41,087) | 35,958 |
| Non-current liabilities | **(359,646)** | (2,115) | (2,048) | (1,991) | (1,991) |
| Net assets | **639,596** | 415,024 | 25,436 | 71,978 | 166,592 |