

**第1视频®**

**VODONE.com**

**VODONE LIMITED**

(Incorporated in Bermuda with limited liability)

Stock code: 82



**China's Largest  
Internet Video  
Broadcasting  
Union System**

**China's Online Video Portal**

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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. Kwok Chi Keung, Andy

### **AUDITOR**

Shu Lun Pan Horwath Hong Kong  
CPA Limited

### **LEGAL ADVISORS**

Jones Day

### **PRINCIPAL BANKERS**

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

### **WEB-SITE AND E-MAIL ADDRESS**

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[ir@vodone.com](mailto:ir@vodone.com), [info@vodone.com.hk](mailto:info@vodone.com.hk)

### **STOCK EXCHANGE LISTING**

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

The board of directors of VODone Limited (the “Company”) is pleased to announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
	Notes		
<b>CONTINUING OPERATION</b>			
Turnover	4	53,575	44,221
Cost of sales		(42,260)	(23,384)
Gross profit		11,315	20,837
Other revenue	4	3,711	1,735
Other gains and losses	5	73,454	—
Selling and distribution costs		(9,634)	(2,576)
Administrative expenses		(40,094)	(54,970)
Finance costs	6	(29,972)	—
Share of results of an associate		(40)	34
PROFIT/(LOSS) BEFORE TAX	7	8,740	(34,940)
Income tax	8	—	—
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATION		8,740	(34,940)
<b>DISCONTINUED OPERATION</b>			
LOSS FOR THE PERIOD FROM DISCONTINUED OPERATION	9	—	(4,788)
PROFIT/(LOSS) FOR THE PERIOD		8,740	(39,728)
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Company		8,899	(38,009)
Minority interests		(159)	(1,719)
		8,740	(39,728)
<b>EARNINGS/(LOSS) PER SHARE</b>			
Basic (HK Cents)	10		
— from continuing and discontinued operations		0.5	(2.5)
— from continuing operation		0.5	(2.3)
Diluted (HK Cents)			
— from continuing and discontinued operations		0.2	—
— from continuing operation		0.2	—

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2008 (Unaudited) HK\$'000	As at 31 December 2007 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	19,786	16,418
Interest in an associate	12	47,994	48,034
Goodwill	13	231,792	231,792
		<b>299,572</b>	296,244
<b>CURRENT ASSETS</b>			
Accounts receivable	14	149	4,629
Prepayments and other receivables		136,405	127,063
Amount due from an associate		49,587	25,483
Amount due from a related company		—	9,109
Bank balances and cash		298,197	553,601
		<b>484,338</b>	719,885
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		22,874	14,895
Deposit received		670	570
Amount due to a related company		52	—
Obligations under finance lease		40	8
Other borrowings		1,414	1,414
		<b>25,050</b>	16,887
<b>NET CURRENT ASSETS</b>		<b>459,288</b>	702,998
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>758,860</b>	999,242
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance lease		—	32
Convertible notes	15	70,710	359,614
		<b>70,710</b>	359,646
<b>NET ASSETS</b>		<b>688,150</b>	639,596
<b>EQUITY</b>			
Share capital	16	17,311	16,441
Reserves		646,430	598,588
		<b>663,741</b>	615,029
Minority interests		24,409	24,567
<b>TOTAL EQUITY</b>		<b>688,150</b>	639,596

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended	Attributable to shareholders of the Company									Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Statutory reserves HK\$'000	Convertible note reserve HK\$'000	Share-based compensation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Minority interests HK\$'000	
At 1 January 2007	13,908	547,052	33,474	1,522	16,492	20,076	215	(247,510)	29,795	415,024
Net income recognized directly in equity — exchange differences arising on translation of financial statements of overseas subsidiaries	—	—	—	—	—	—	5,604	—	151	5,755
Net loss for the period	—	—	—	—	—	—	—	(38,009)	(1,719)	(39,728)
Total recognized income and expense for the year	—	—	—	—	—	—	5,604	(38,009)	(1,568)	(33,973)
Shares issued on conversion of convertible notes	1,052	66,467	—	—	(16,492)	—	—	—	—	51,027
Shares issued on exercise of share options	1,057	141,938	—	—	—	(23,457)	—	—	—	119,538
Recognition of share based payments	—	—	—	—	—	29,253	—	—	—	29,253
At 30 June 2007	16,017	755,457	33,474	1,522	—	25,872	5,819	(285,519)	28,227	580,869

For the six months ended	Attributable to shareholders of the Company									Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Statutory reserves HK\$'000	Convertible note reserve HK\$'000	Share-based compensation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Minority interests HK\$'000	
At 1 January 2008	16,441	838,366	33,474	—	—	17,823	11,508	(302,583)	24,567	639,596
Net income recognized directly in equity — exchange differences arising on translation of financial statements of overseas subsidiaries	—	—	—	—	—	—	9,252	—	1	9,253
Net profit/(loss) for the period	—	—	—	—	—	—	—	8,899	(159)	8,740
Total recognized income and expense for the year	—	—	—	—	—	—	9,252	8,899	(158)	17,993
Shares issued on repurchase of convertible notes	867	29,475	—	—	—	—	—	—	—	30,342
Shares issued on exercise of share options	3	301	—	—	—	(85)	—	—	—	219
At 30 June 2008	17,311	868,142	33,474	—	—	17,738	20,760	(293,684)	24,409	688,150

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<b>(42,784)</b>	(86,436)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(6,587)</b>	(5,084)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<b>(209,088)</b>	119,538
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(258,459)</b>	28,018
EFFECT OF CHANGE IN FOREIGN EXCHANGE RATE CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>3,055</b>	1,854
	<b>553,601</b>	206,320
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>298,197</b>	236,192
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash		
— Continuing operation	<b>298,197</b>	234,096
— Discontinued operation	—	2,096
	<b>298,197</b>	236,192

## NOTES TO FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) No 34 “Interim Financial Reporting” and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by The Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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

The condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”) which is also the functional currency of the Company.

### 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2007. The condensed interim financial statements should be read in conjunction with Company’s 2007 annual report.

In the six months ended 30 June 2008, the Group has applied, for the first time, new interpretations (“New Interpretations”) issued by the (“HKICPA”), which are effective for the Group’s financial year beginning on 1 January 2008. The adoption of these New Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods.

At the date of this report, the following standards and interpretations were in issue but not yet effective:

		<b>Effective for annual periods beginning on or after</b>
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
HKAS 32 & 1, Amendments	Puttable Financial Instruments and Obligations arising on Liquidation	1 January 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 13	Customer Loyalty Programmes	1 July 2008

The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group in the period of initial application.



### 3. SEGMENT INFORMATION

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

During the period ended 30 June 2008, all the revenue and assets of the Group were derived from the tele-media services in the PRC. Accordingly, no analysis by business or by geographical segment is provided for the said period.

During the six months ended 30 June 2007, the turnover and operating results of the Group were derived from the following two business segments:

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

During the six months ended 30 June 2007, the Group's operations are situated in the PRC in which all of its revenue was derived. Accordingly, no geographical segments are presented.

The following table present revenue and results for the Group's business segments for the six months ended 30 June 2007:

<b>For the six months ended 30 June 2007 (Unaudited)</b>	<b>Continuing operation</b>	<b>Discontinued operation</b>	<b>Consolidated</b>
	<b>Tele-media service HK\$'000</b>	<b>Manufacturing, trading and contracting of Chinese Medicine products HK\$'000</b>	<b>HK\$'000</b>
Segment revenue:			
Turnover	44,221	6,386	50,607
Segment results	10,502	(4,788)	5,714
Unallocated corporate expenses:			
Cost of share based payment in respect of granting of share options			(29,253)
Other			(16,223)
Loss from operating activities			(39,762)
Share of results of an associate			34
Loss for the period			(39,728)

#### 4. TURNOVER AND REVENUE

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

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>From continuing operation</b>		
Turnover		
Service fee income	53,575	44,221
Other revenue		
Interest income	3,670	1,624
Other income	41	111
	<b>3,711</b>	1,735
Total revenue	<b>57,286</b>	45,956
<b>From discontinued operation</b>		
Turnover		
Sales of medicines	—	6,386
Other revenue		
Interest income	—	8
Total revenue	—	6,394

#### 5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>From continuing operation</b>		
Fair value gain on derivative component of convertible notes	54,360	—
Gain on repurchase of convertible notes (note 15(ii))	19,094	—
	<b>73,454</b>	—
<b>From discontinued operation</b>		
Loss on disposal of property, plant and equipment	—	44

## 6. FINANCE COSTS

Finance costs comprise the followings:

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>From continuing operation</b>		
Imputed interest on Consideration Convertible Note (note 15)	<b>29,972</b>	—
<b>From discontinued operation</b>		
Interest on bank loans, overdrafts and other borrowings wholly payable within five years	—	12

## 7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) from operating activities is arrived at after charging:

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Staff costs (excluding directors' remuneration)		
Salaries and wages	<b>9,987</b>	3,816
Pension fund contributions	<b>1,507</b>	522
Share-based payments	—	21,996
	<b>11,494</b>	26,334
Cost of inventories sold	—	3,237
Provision against inventories*	—	12
Amortisation of Chinese medicine intellectual property and know-how	—	2,165
Depreciation	<b>1,646</b>	1,063
Allowance for doubtful debts	—	364
Auditor's remuneration	<b>183</b>	940

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

## 8. INCOME TAX

- (a) No provision for income tax was made as the Group sustained tax losses for the six months ended 30 June 2007 and 2008.

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 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) 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. The Implementation Rules provides for the withholding tax rate to be at 10% unless reduced by treaty.

## 9. DISCONTINUED OPERATIONS

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 is considered a connected transaction. The disposal was completed in October 2007.

The loss for the period from the discontinued operation is analysed as follows:

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Losses of Chinese medicine business for the period	—	(4,788)

## 10. EARNINGS/(LOSS) PER SHARE

	Six months ended 30 June	
	2008 (Unaudited) HK Cents	2007 (Unaudited) HK Cents
Basic earnings/(loss) per share from:		
— continued operation	0.5	(2.3)
— discontinued operation	—	(0.2)
Total earnings/(loss) per share	0.5	(2.5)

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

### Profit/(loss)

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Profit/(loss) for the period attributable to equity holders of the Company	8,899	(38,009)
Loss for the period from discontinued operation used in the calculation for basic loss per share from discontinued operation	—	(3,081)
Profit/(loss) for the period used in the calculation of basic earnings/(loss) per share from continuing operation	8,899	(34,928)

### Number of shares

	Six months ended 30 June	
	2008 (Unaudited)	2007 (Unaudited)
Weighted average number of ordinary shares (basic)	1,644,838,842	1,511,916,091

Diluted earnings per share for the six months ended 30 June 2008 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the convertible notes (note 15) issued by the Company based on the reset conversion price of HK\$3.485 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 instruments and imputed interest.

## 10. EARNINGS/(LOSS) PER SHARE (Continued)

<b>Profit</b>	<b>(Unaudited)</b> HK\$'000
Profit for the period used in the calculation of basic earnings per share	8,899
Effect of dilutive potential ordinary shares:	
— Fair value gain on derivative component of convertible notes	(11,667)
— Imputed interest on convertible notes	6,433
Profit for the period used in the calculation of diluted earnings per share	3,665
Diluted earnings per share (HK Cents)	0.2
<b>Number of shares</b>	
Weighted average number of ordinary shares in issue	1,644,838,842
Adjustment for assumed conversion of convertible notes	25,251,076
Weighted average number of ordinary shares for diluted earnings per share	1,670,089,918

Diluted loss per share amounts for the six months ended 30 June 2007 has not been shown as the share options outstanding as of that date had an anti-dilutive effect on the basic loss per share.

## 11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$4,484,000 (2007: HK\$6,750,000).

## 12. INTEREST IN AN ASSOCIATE

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Share of net assets	—	40
Goodwill	<b>47,994</b>	47,994
	<b>47,994</b>	48,034

## 12. INTEREST IN AN ASSOCIATE (Continued)

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

<b>Name of company</b>	<b>Place of incorporation and operation</b>	<b>Proportion of ownership interest</b>	<b>Ownership Voting power held</b>	<b>Principal activity</b>
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:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Total assets	<b>1,099</b>	25,898
Total liabilities	<b>(1,259)</b>	(25,817)
Net (liabilities)/assets	<b>(160)</b>	81
Group's share of the associates's net assets	—	40
<b>For the six months ended</b>		
	<b>30 June 2008 (Unaudited) HK\$'000</b>	30 June 2007 (Unaudited) HK\$'000
Revenue	<b>624</b>	22,856
(Loss)/profit for the period	<b>(145)</b>	69
Group's share of the associate's (loss)/profit for the period	<b>(40)</b>	34

### 13. GOODWILL

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Balance at beginning of period/year	<b>231,792</b>	237,898
Disposal of a subsidiary	—	(6,106)
Balance at end of period/year	<b>231,792</b>	231,792

Goodwill is allocated to the Group's cash generating units ("CGUs") identified to country of operation and business segment. The carrying amounts as at 31 December 2007 were related to the Group's tele-media service business.

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.

### 14. ACCOUNTS RECEIVABLE

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

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Within 1 month	—	3,205
2 to 3 months	<b>6</b>	14
4 to 6 months	—	1,410
7 to 12 months	<b>143</b>	—
	<b>149</b>	4,629



## 15. CONVERTIBLE NOTES

The movements of the liability and derivative components of the convertible notes during the year/period are set out below:

	<b>Derivative component</b>	<b>Liability component</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	—	51,027	51,027
Converted to ordinary shares	—	(51,027)	(51,027)
Issue of convertible notes	97,444	312,556	410,000
Issuing cost	—	(30,888)	(30,888)
Imputed interest	—	22,915	22,915
Change in fair value	(42,413)	—	(42,413)
At 31 December 2007	55,031	304,583	359,614
Imputed interest	—	29,972	29,972
Interest paid	—	(5,780)	(5,780)
Change in fair value	(54,360)	—	(54,360)
Repurchase of convertible notes	(527)	(258,209)	(258,736)
At 30 June 2008	144	70,566	70,710

- (i) On 7 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 couple 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\$4.10 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 Date, 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.

## 15. CONVERTIBLE NOTES (Continued)

(i) (Continued)

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.

On 22 January 2008, the Conversion Price was automatically reset to HK\$3.485 pursuant to the terms and conditions of the Notes.

(ii) On 9 May 2008 and 19 May 2008, the Company entered into several conditional agreements ("Note Repurchase Agreements") and supplemental agreements ("Supplemental Agreements") respectively with five holders of Convertible Notes ("Noteholders") with total principal amount of HK\$322,000,000. According to the Note Repurchase Agreements and Supplemental Agreements, the Company shall (i) repurchase Convertible Notes in total principal amount of HK\$209,300,000 ("Repurchased Notes") (equivalent to 65% of the outstanding principal amount of the respective Convertible Notes) and (ii) convert Convertible Notes in total principal amount of HK\$112,700,000 ("Remaining Notes") (equivalent to remaining 35% of the outstanding principal amount of the respective Convertible Notes).

Pursuant to Note Repurchase Agreements and Supplemental Agreements, the Company and the Noteholders agreed that the Company shall repurchase the Repurchased Notes at their full face value and the Remaining Notes will be converted at HK\$1.30 per share on completion.

As at the balance sheet date, the repurchase of convertible notes had been completed, other than a principal amount of HK\$88,000,000 remaining outstanding.

## 16. SHARE CAPITAL

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
<i>Authorised:</i> 50,000,000,000 ordinary shares of HK\$0.01 each	<b>500,000</b>	500,000
<i>Issued and fully paid:</i> 1,731,066,355 (31 December 2007: 1,644,074,049) ordinary shares of HK\$0.01 each	<b>17,311</b>	16,441

## 16. SHARE CAPITAL (Continued)

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

	Number of ordinary shares	Share capital HK\$'000
At 1 January 2007	1,390,756,673	13,908
Shares issued on conversion of convertible notes	105,267,376	1,053
Shares issued on exercise of share options	148,050,000	1,480
At 31 December 2007	1,644,074,049	16,441
Shares issued on repurchase of convertible notes (note 15(ii))	86,692,306	867
Shares issued on exercise of share options (note 19)	300,000	3
At 30 June 2008	1,731,066,355	17,311

## 17. OPERATING LEASE ARRANGEMENTS

	30 June 2008 (Unaudited) HK\$'000	30 June 2007 (Unaudited) HK\$'000
Minimum lease payments paid under operating leases	3,531	1,884

At 30 June 2008, the Group had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	4,573	6,433
In the second to fifth years, inclusive	2,059	3,356
	6,632	9,789

## 18. COMMITMENTS

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Contracted, but not provided for:		
— Acquisition of property, plant and equipment	—	5,950
— Casting Poll show	—	9,917

## 19. SHARE-BASED PAYMENT TRANSACTIONS

### Equity-settled share option scheme of the Company

Under the share option scheme adopted by the Company on 7 June 2002 (the "Scheme"), the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The exercise price for the share options shall be determined in accordance with the Scheme and the relevant provisions of the Listing Rules. The costs for the value of the grant of share options were recognised as an expense during the year.

On 1 August 2006, a total of 43,760,000 share options were granted to the directors of the Group and eligible participants pursuant to the Scheme. The options were granted at a cash consideration of HK\$1.00 per grantee and entitled the grantees to subscribe for ordinary shares (of nominal value of HK\$0.01 each) of the Company at an exercise price of HK\$0.85 per share. The options may be exercisable during the period from 1 August 2006 to 31 July 2009. During the year, 37,600,000 of these share options were exercised.

On 8 November 2006, a total of 32,300,000 shares 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\$0.73 per share. The options may be exercisable during the period from 8 November 2006 and 7 November 2009. During the year, 27,660,000 of these share options were exercised.

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.

During the six months ended 30 June 2008, a total of 300,000 share options were exercised by the participants. The total proceeds were used as general working capital of the Group.

## 20. 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
Sino Sky Telecom Industry Group	Minority shareholder of TMD2
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 material related party transactions during the period:

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Consultancy fee income earned from the associate, TMD1	53,371	21,634
Consultancy fee income earned from VODONE	—	20,708
Service fee charged by VODONE	—	25
Director's quarter expenses paid to Sunview	—	180
Sharing of office services from WorldVest	—	43
Purchase of raw materials/herbs from China National Medicine	—	568
Rental expenses paid to Beijing Huamiao	—	314

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

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Short term benefits	6,633	7,581
Share-based payments	—	7,257
	<b>6,633</b>	<b>14,838</b>

## **20. RELATED PARTY TRANSACTIONS** (Continued)

- (c) The amounts due from/(to) a related company is interest free, unsecured and repayable on demand. The balance as at 31 December 2007 was fully settled in February 2008.
- (d) The amount due from an associate is unsecured, interest free and repayable on demand. The balance as at 31 December 2007 was fully settled in February 2008.

## **21. DIVIDENDS**

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

## **22. 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 19 September 2008.

# **MANAGEMENT DISCUSSION AND ANALYSIS**

## **OPERATING RESULTS**

Turnover of the Group for the six months ended 30 June 2008 was HKD53,575,000 an increase of around 21% for the corresponding period of last year. Such increase was due to the increase in tele-media service business in the first half of the year. Operating profit attributable to shareholders was HKD8,899,000 equivalent to an earning of Hong Kong 0.5 cents per share, compared with a loss of HKD38,009,000, equivalent to a loss of Hong Kong 2.5 cents per share for the corresponding period of last year. Increase in operating profit was mainly due to fair value gain on derivative component of convertible notes and gain on repurchase of convertible notes amounting to HK\$54,360,000 and HK\$19,094,000 respectively.

The gross profit margin dropped from 47% to 21%. In the comparable period, the revenue was derived from provision of telecommunication services which at the then period, the fee charged could generate a higher margin. In the second half year of 2007, due to the changes in the operating environment, VODONE determined to terminate the telecommunication services and moved to the tele-media advertisement industry which, at the initial stage of operation, generated a lower gross margin.

## **OPERATING ENVIRONMENT**

The Group has continued to focus on the tele-media service business and has 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.

Broadband users in China reached over 214 million in June 2008, making it the largest market in the world. 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. 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. Reports published have indicated that despite economic situations and the shrink in advertising budgets around the world (mainly Western Europe and USA), this is unlikely to be the trend in the PRC. Advertising growth in China is expected to be robust and internet advertising is undoubtedly a big beneficiary of this growth. This should benefit the VODone BUS model and advertising on the www.vodone.com portal website.

At present, the PRC has yet to finalise the third generation mobile (“3G”) arrangements. Currently, operators have already enabled users to trial 3G mobile phones. 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. With the 3G market opening up, 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 major driver of revenues. The Group has realised such potential and has already obtained one of the very few licenses issued to broadcast content on 3G mobile phones. 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, a promising outlook is expected 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 Telemedia 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 Telemedia. VODONE’s customers include users of broadband Internet and mobile phone users. 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 launched an updated 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.

### **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 Ministry of Information ("MI" 中華人民共和國信息產業部) and other PRC authorities that VODONE is able to produce and broadcast audio/video 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:

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

Licenses issued by MI:

- 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)

License issued by Beijing Municipal Telecommunications Administrative Bureau (北京市通信管理局):

- Telecom and Information Service Operation License (電信與資訊服務業務經營許可證)
- Approved for Electronic announcement services (增設電子公告服務欄目的批復)

License issued by General Administration of Press and Publication of the People's Republic of China (中華人民共和國新聞出版總署):

- Internet publish permit (互聯網出版許可證)

License issued by Beijing Drug Administration (北京市藥品監督管理局):

- Internet Drug Information Service Certificate (互聯網藥品資訊服務資格證書)

License issued by State Council Information Office of the People's Republic of China (中華人民共和國國務院新聞辦公室):

- Internet News Information Service permit (互聯網新聞資訊服務許可證)

License issued by Beijing Communications Administration (北京市通信管理局):

- Approval for Electronic announcement services (增設電子公告服務欄目的批復)

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>);
- (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://cncma1x.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) Focus Media to co-develop and promote the new media advertising marketing in China on leveraging the advertising platform of two companies
- (viii) Xinhua News Agency to enable VODONE to launch an online video theme programme, "Olympic OnlineExpress", where the latest, fastest and the most accurate Olympic news and information will be provided by Xinhua Media. Internet users can view the Express at VODone Live during the Olympic period without any charges.

The 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 own the complete set of licenses to operate legally on the Internet in the PRC.

## **OPERATION REVIEW**

### **Tele-media service business**

#### ***VODone portal (vodone.com)***

The largest online video portal provides 250 million Chinese netizens with easy navigation to search for videos, aggregate videos from all over and spreads out excitements. A new image portal was launched before the Beijing Olympics to capture the maximum netizens.

The new portal not only keeps but augments many channels, such as news, finance, sports audio visual, entertainment, original creation, as well as integrates the various products of its subsidiary with VODone BUS as the representative. This enables a clearer classification of video broadcasting and a more extensive coverage for the enhanced VODone Portal.

### ***VODone Live (live.vodone.com)***

One big feature of VODONE is the self-created video programs and live broadcasting of such programs with online interactions. VODONE provides many channels covering 250 million Chinese netizens. VODONE broadcasts China to the world as well as the world to China.

### ***VODone Broadcasting Union System (bus.vodone.com)***

The largest and most valuable broadcasting platform for publishing video programmes and advertisements to more than 10 million webpages in the union every day, with more than 120 million daily page views.

### ***VODone Wireless (wap.vodone.com)***

Over 50 million Chinese mobile phone users can use their phones to watch video programmes for VODONE, any time any where.

### ***Water Margin***

The Water Margin project of which one of the company's subsidiaries had been involved in has ended the casting poll stage. This project consists of two parts. The first being the casting poll part, and the second being the production part of the actual Water Margin TV series. Due to cost reasons it is unlikely for the Group to continue with the production stage. Advertising income has however been generated from the first part, namely the casting poll of this project.

### ***Olympic BIMC***

VODONE is the official new media partner of the 2008 Beijing International Media Center ("BIMC"). VODONE is one of the five partners of this media center and the other four are very well-known companies internationally including Lenovo, Sohu, Aigo and China Mobile. VODONE's main role in this is to provide non-registered (i.e. non-sports news) reporters and journalists with up-to-date country-wide social events. Studios, equipment and various services are provided and also available for rental. Main source of income is from advertising and rental activities. This cooperation symbolizes its leading position in China's internet online broadcasting industry and its highlights for enhancing its international image, together bringing revenue to the Group.

## **FINANCIAL REVIEW**

### **Tele-media service business**

The tele-media service business contributed a turnover of HKD53,575,000 to the Group in the six months ended 30 June 2008.

### **Liquidity and Financial Resources**

As at 30 June 2008, the Group had HKD298,197,000 cash and cash equivalents (31/12/2007: HKD553,601,000). Working capital was HKD459,288,000 as compared with the working capital of HKD702,998,000 at the end of last year. The Group did not have any bank borrowings as at 30 June 2008.

The exercise of share options by eligible participants of Group's share option scheme also contributed extra liquidity to the Group. During the period, a total of 300,000 share options were exercised by the participants. The total proceeds arising from the exercise of such share options amounted to HKD219,000 and were used as general working capital of the Group.

During the period under review, investments in fixed assets by the Group were amounted to approximately HK\$4,484,000 (2007: HK\$6,750,000).

Since the Group generates most of the revenue in Renminbi and incurs most of the costs in Renminbi, there were no material foreign exchange risk.

As at 30 June 2008, the Group's current ratio was 19.33 (31/12/2007: 42.6), debt equity ratio and gearing ratio (i.e., interest bearing bank loans, convertible notes and other borrowings to shareholders' equity) were lowered to 11 (31/12/2007: 58) and 11 (31/12/2007: 58) respectively.

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

### **Charges and Contingent Liabilities**

As at 30 June 2008, the Group had no charges on its assets and no material contingent liabilities.

### **Capital Structure**

As at 30 June 2008, the Group had total assets of HKD783,910,000 (31/12/2007: HKD1,016,129,000) which were financed by shareholders' funds of HKD663,741,000 (31/12/2007: 615,029,000), total liabilities of HKD95,760,000 (31/12/2007: HKD376,533,000) and minority interests of HKD24,409,000 (31/12/2007: HKD24,567,000).

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. On 9 May 2008 and 19 May 2008, the Company entered into several conditional agreements (“Note Repurchase Agreements”) and supplemental agreements (“Supplemental Agreements”) respectively with five holders of Convertible Notes (“Noteholders”) with total principal amount of HK\$322,000,000. According to the Note Repurchase Agreements and Supplemental Agreements, the Company shall (i) repurchase Convertible Notes in total principal amount of HK\$209,300,000 (“Repurchased Notes”) (equivalent to 65% of the outstanding principal amount of the respective Convertible Notes) and (ii) convert Convertible Notes in total principal amount of HK\$112,700,000 (“Remaining Notes”) (equivalent to remaining 35% of the outstanding principal amount of the respective Convertible Notes). Pursuant to Note Repurchase Agreements and Supplemental Agreements, the Company and the Noteholders agreed that the Company shall repurchase the Repurchased Notes at their full face value and the Remaining Notes will be converted at HK\$1.30 per share on completion. As at the balance sheet date, the repurchase of convertible notes had been completed, other than a principal amount of HK\$88,000,000 remaining outstanding.

## **EMPLOYEES REMUNERATION AND BENEFITS**

As at 30 June 2008, the Group had 186 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 is the cost much lower compared to that of conventional advertising methods, but it is also much more efficient and effective.

VODONE has predominance in three aspects including the full set of licences for online broadcasting and publishing, the well-established brand and the sufficient working capital. Obtaining the full set of licences allows VODONE expanding the business on publishing online comics, animations and games. It will boost the page view for VODone portal and VODone Live, as well as online advertising which will bring more revenue for VODONE. The brand recognition is arising owing to the various promotions nationwide and the channel set up reporting 512 earthquakes in Sichuan. The branding effect helps promoting the recognition of VODONE, which attracts more advertisers and brings more revenue to the Group.

It has been forecasted 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% until 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 alliance 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. Similarly, some web alliances 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.

In August 2008, the PRC offered several users trials of the 3G phone technology to view the Olympic Games. This is a significant and symbolic step of bringing the mobile phone market in the PRC to a new era. VODONE has already taken steps forward to engage themselves in the 3G mobile phone sector. The Directors hold an optimistic view on the prospect of the 3G mobile business. VODONE has already obtained the right to broadcast content and advertisements through 3G mobile phone operators to their users, and is exploring the opportunities to offer its VODone BUS model and video infotainment content to 3G users. With solid fundamentals and a legally qualified status, VODONE is poised to thrive in the tele-media industry.

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2008.

## AUDIT COMMITTEE

The Board has established the audit committee in compliance with Rule 3.21 of the Listing Rules. The audit committee was set up for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the independent non-executive directors of the Company and has reviewed, together with the management, the accounting policies and practice adopted by the Group and the financial statements of the unaudited condensed consolidated interim results of the Group for the six month ended 30 June 2008.

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

As at 30 June 2008, 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	346,067,376 <sup>(Note 1)</sup>	19.99%
Wang Chun	Beneficial owner	8,700,000	0.50%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	80,000	0.005% <sup>(Note 2)</sup>

Note 1: Of these 346,067,376 shares, 337,367,376 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:**

<b>Name of director</b>	<b>Capacity</b>	<b>Number of underlying shares in respect of the share option granted</b>	<b>% of total issued share capital</b>
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	605,000 <sup>(Note 1)</sup>	0.03%
Wang Chun	Beneficial owner	10,200,000 <sup>(Note 1)</sup>	0.59%
Zhang Lijun	Beneficial owner/ Interest of spouse	17,200,000 <sup>(Notes 1, 2)</sup>	0.99%

Note 1: Details of the above share options granted by the Company are set out in note 19 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.

Save as disclosed herein, as at 30 June 2008, 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.

## **SUBSTANTIAL SHAREHOLDER'S INTERESTS**

As at 30 June 2008, 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:

<b>Name of shareholder</b>	<b>Number of issued shares held</b>	<b>% of total issued share capital</b>
Zhang Lijun	346,067,376 <sup>(Note 1)</sup>	19.99%

Note 1: Of these 346,067,376 shares, 337,367,376 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.

## CODE OF CORPORATE GOVERNANCE PRACTICES

Save for the deviation as reported and discussed in the Corporate Governance Report as contained in the Company's 2007 Annual Report, none of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the period for the six months ended 30 June 2008, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-Laws of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules during the period for the six months ended 30 June 2008. Having made specific enquiry of all directors, each of whom has confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by the directors.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2008.

## DIRECTORS

As at the date of this interim report, the Board of the Company comprises two executive Directors: Dr. Zhang Lijun (Chairman), Ms. Wang Chun and three independent non-executive Directors: Dr. Loke Yu alias Loke Hoi Lam, Mr. Wang Zhichen and Mr. Wang Linan.

By Order of the Board

**ZHANG Lijun**

*Chairman*

Hong Kong, 19 September 2008