VODONE LIMITED

(Incorporated in Bermuda with limited liability)
Stock code: 82

China's Largest

Internet Video Advertising Platform

Annual Report 2008

2008 BIMC

The 29th Olympic Games Beijing International Media Center Official New Media Partner

Corporate Profile

The associated company of VODONE is an Internet video new media company which owns the fullest set of qualifications and licenses in China's Internet video industry, including the Information Network Communicated Audio-Video Programme Permit, Internet News Information Permit, Value-added Telecom Service Operation Permit, Internet Publication Permit and some other required licenses, ensuring itself a healthy development in the future.

VODONE established VODone Broadcasting Union System (BUS) — the largest Internet video broadcasting union platform in China in 2005. With diversified content, VODone BUS has the ability to accurately deliver advertisements to the right place at the right time according to different industries' requirements through its vertical classification system which carries different advertisements. The system is supported by Nielsen ON LINE and DoubleClick in data monitoring and has become one of the most popular advertisement platforms by advertisers. VODone BUS is the largest Internet video programme as well as video advertisement broadcasting platform. As of the end of 2008, VODone BUS had over 100 thousand member websites. According to the independent monitor data prepared by Nielsen, VODone BUS enjoys daily page view of over 150 million with 25 million VODone broadcasts covering over 2 million websites across China, making it the most influential medium.

VODone Broadband is VODONE's own platform for broadcasting self-produced programmes and those of its cooperative partners. Its live, news, entertainment, finance and sports programmes are increasingly popular among netizens. VODONE's UGC platform allows users to upload content to the web and its cooperation with MSN China has gained encouraging response as evidenced by over 2,000 programmes being uploaded by different users everyday. VODONE also has its own professional team with technical experts in production, broadcasting and transmission, enabling it to broadcast live videos via Internet and satellite. So far, VODONE has broadcasted thousands of domestic and international political, economical, cultural and commercial activities over the Internet. VODONE is broadcasting China to the world and the world to China. VODone Portal also has popular gaming and shopping channels catering the needs of netizens.

VODONE is currently the only Internet video broadcasting company listed in Hong Kong.

Mission and Vision

To become China's largest Internet news platform - an integrated new media group which provides upscale lifestyle information as well as to serve as a web medium and web community.

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Corporate **Information**

Board of Directors

Chairman

Dr. Zhang Lijun

Executive director

Ms. Wang Chun
Mr. Yue Hong Chu, George
Mr. Sin Hendrick

Independent non-executive directors

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

Audit Committee

Dr. Loke Yu alias Loke Hoi Lam *(Chairman)*
Mr. Wang Zhichen
Mr. Wang Linan

Nomination Committee and Remuneration Committee

Dr. Zhang Lijun *(Chairman of Nomination Committee)*
Dr. Loke Yu alias Loke Hoi Lam *(Chairman of Remuneration Committee)*
Ms. Wang Chun
Mr. Wang Zhichen
Mr. Wang Linan

Company Secretary

Mr. Yan Man Sing, Frankie

Auditors

Shu Lun Pan Horwath Hong Kong CPA Limited

Principal Bankers

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

Bermuda Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

Hong Kong Share Registrar and Transfer Office

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

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Stock Code

82

Chairman's **Statement**

Keywords of China in 2008 snowstorms, earthquakes, Beijing Olympics, Shenzhou 7, VODONE......

Zhang Lijun
Chairman

Dear Shareholder,

2008 was a year of shock and awe to China's economy and society. Those serious natural disasters that were rarely seen in history, the impressive 2008 Beijing Olympic Games and the global financial tsunami, all had tremendous impact on the entire Internet video industry as well on China's economy. In this extraordinary year, VODONE strived to face the economic, political and social challenges and in the meantime explored the opportunities to achieve better results for our shareholders.

Operating Performance: Stable Growth of the Four Core Businesses

Under the ever-changing market needs and conditions, VODONE operates with four core businesses: VODone Portal, VODone Broadband, VODone BUS and VODone Wireless based on its market insight and its own edges.

VODone Portal (www.vodone.com) targets the high-end Internet video user community with Internet video programmes as the major content. Live news video programmes are our main selling point to attract Internet users who seek upscale lifestyle information. With coverage of over 200 million high-end Internet video watchers, VODone Portal drives the development of China's new media advertisement market.

VODone Broadband is a platform which mainly broadcasts its in-house produced Internet video programmes by leveraging on its ability to broadcast live programmes. VODONE was the first new media company that made live Internet video broadcasting a reality. VODone Live operates with an advanced operating philosophy and possesses state-of-the-art live broadcasting equipment and technology as well as satellite live broadcasting platform. Accordingly, it can enjoy vast coverage, influencing power, high interaction and high precision. VODONE broadcasts programmes about culture,

Chairman's **Statement**

education, entertainment, sports, social and economic issues and so far has made live broadcasts of a few thousand large-scale business conferences, product launch presentations, cultural and arts performances, concerts, award ceremonies, sports events, TV or movie premieres, etc. VODONE is broadcasting China to the world and the world to China!

VODone Broadcasting Union System (VODone BUS) is monitored by AC Nielsen of its broadcast data and supported by DoubleClick on the technical side. It has successfully attracted many websites to join as members, enabling it to deliver advertisements to the right audiences at the right time in the right location. With innovation as the motto, VODONE continues to explore new advertising formats and achieves seamless integration of advertisements and content. Its achievements are highly recognized in the advertisement industry. As of the end of 2008, VODone BUS enjoyed daily page views of over 150 million on more than 25 million terminals, making it the most influential Internet video advertising platform in China.

Brand Building at the Beijing Olympics

In 2008, China hosted the 29th Olympic Games, the great event watched by the whole world. VODONE took this great opportunity to build its corporate brand by being the only new media partner of the 2008 Beijing International Media Centre (BIMC). VODONE provided comprehensive equipment and services such as broadcasting rooms and stage editing to journalists and renowned media from all over the world, including Cameroon, Japan, Uruguay, Tunisia, Hong Kong, etc. The big media interview show "Olympic Media Show" produced and broadcasted by VODONE was highly appraised by all the on-site journalists from different parts of the world, the Beijing Organizing Committee for the Games of the XXIX Olympiad, BIMC as well as the relevant state leaders and was awarded the title of "Olympic Games Coverage Advanced Collective" (奧運報道先進集體). VODONE also co-organized a creative activity called "100M Long Manuscript Roll of Olympic Games Journalists" (奧運記者手迹百米長卷) with BIMC, which gained high exposure and was reported extensively by domestic and overseas media. The roll was later donated to the Beijing Olympic Games Sports Museum as one of the permanent collection items, leaving a precious legacy to the memorable great event of China's first hosting of the Olympic Games.

Corporate Social Responsibility

During the Sichuan Earthquake, VODONE took the lead to ally with various portal websites to launch the "Join Hearts to Move the World – Sichuan Earthquake Alliance Broadcast Web" ("愛心牽盼、聯動世界—抗震救災大聯播"). Moreover, VODONE organized two trips for volunteers to offer on-site relief of the victims and made a RMB1 million donation to the Red Cross Organization. The real time coverage contributed by the on-the-ground volunteers moved the whole nation. During the days of around-the-clock broadcast of disaster relief news and the coverage produced by VODONE, we accumulated hit rates of 4 million times with over twenty thousand messages left on chatboards. The real time videos transmitted over VODone BUS and the VODone website showing how the victims, the Government and the People's Liberation Army fought the quake touched billions of people around the world and VODONE became a major provider of information about the relief actions right at the affected areas. According to the relevant statistics, over billions of netizens watched the quake video news on the Internet, of which more than 10 million netizens chose VODONE as their daily source of quake information, and the page view was over 100 million per day. This proves that VODONE has been playing a vital role in reporting and transmitting important social incidents and topics. During the 2008 Beijing Olympics, VODONE successfully linked the Olympic spirits with its corporate brand and significantly promoted its brand value.

Qualification Advantage:

In 2008, VODone Telemedia Company Limited was granted the Internet News Information Permit, being the only one Internet video news website which possesses such qualification. Such status has strengthened the Group's solid leading position in the qualification aspect.

VODONE has now become the player in the Internet video industry who holds the most complete set of qualifications and licenses, including Network Communicated Audio-Video Programme Permit, Internet News Information Permit and Internet Publication Permit. With requirements on Internet qualification and licenses in China evolving continuously, qualifications have become the key to survival and success as well as a protection for Internet companies. Our qualifications also ensure the stable and sustainable development of the Group as well as provide the confidence each of our strategic partner and client expects, which in turn lays a solid foundation that allows us to widen our market and achieve higher revenues.

Chairman's **Statement**

On 30 March 2009, the State Administration of Radio Film and Television ("SARFT") issued the Notice Concerning the Enhanced Management on Internet Audio-visual Content (the "Notice"), which aims to further the management on Internet audio-visual content and copyright issues as well as crackdown of operators without the required licenses. The Notice focuses on the requirements that all Internet audio-visual programme and service providers should possess the relevant licenses and that the TV programmes and movies broadcasted over the Internet shall be in compliance with the relevant broadcasting rules and regulations. Those that fail to comply shall be banned from the Internet. The copyright crackdown brought about by the Notice has had no adverse effect on VODONE as we mainly focus on Internet video news programmes. We clearly understand the characteristics and nature of the Internet video business and fully leverage on its advantage of speedy transmission by broadcasting in-house produced information content. We are developing our own unique Internet video business. This business model not only prevents us from being involved in potential copyright disputes, but also helps us utilize the edges provided by Internet video as a new medium. In the meantime, our possession of a complete set of required licenses and qualifications to operate video news broadcasting on the Internet ensures the compliance of legal requirements. All the content broadcasted on our video channels are copyrighted and thus, the Notice will not have any negative impacts on us. On the contrary, some of our competitors can be materially affected. The Ministry of Information Industry and SARFT have already taken actions vigorously. A very recent example of actions taken by SARFT on 31 March 2009 included the closing down of 162 websites that did not obtain legal licenses to operate. The total number of closed down websites now adds up to 341. Apart from the licensing issue, civil actions have been taken against websites that show improper and pirated content as well. Many of these are currently facing multiple lawsuits brought against them on infringement of intellectual property rights.

Financial Performance

Turnover of the Group was HK$65,900,000 for the year, a healthy increase of 12.8% over the previous year. The contributing factors included the development of VODone BUS and our status as the only new media partner of the 2008 Beijing International Media Centre during the Olympic Games, which significantly enhanced our corporate image and attracted more corporate clients to place advertisements on our platform. Our advertising business recorded an impressive growth of 132%.

Recognitions and Awards

For more diversified business and our sustainable development in the future, we continued to improve our core management in the areas of corporate governance, and human resources, financial and business management for better and higher standards. We are honoured that our portal was awarded AAA rating (the highest rating in the Internet Industry in the PRC) by the Internet Society of China (ISC), a renowned Internet professional association in China.

We also received many other renowned awards in 2008:

- China's Advertising New Media Contribution Award 2008 – Internet Video Advertising Award (2008中國廣告新媒體貢獻大獎－網絡視頻廣告大獎)
- Contributions to Discipline and Governance for China's Internet Industry Award (互聯網行業自律貢獻獎)
- China's Charitable Corporations in the Internet Industry Award (中國互聯網公益企業大獎)
- 2008 BIMC (Non-accredited Journalists) New Media Partnership Certificate (2008北京國際（非註冊記者）新聞中心新媒體服務合作夥伴證書)
- 29th Olympic Games 2008 BIMC Certificate of Contribution (第29屆奧運會2008北京國際新聞中心貢獻證書)
- Ten Best Innovation Brands Award (自主創新十大品牌)
- Ten Best Companies of New Media (Internet) Industry Award（新媒體（網路）行業十強）
- Caring Heart Award by Star of the Olympics Protection Fund (奧運之星保障基金愛心獎)
- Certificate of Donation (RMB1 Million) during the China Internet Fund Raising Show for the Sichuan Earthquake (中國互聯網賑災義演中捐款100萬元證書)
- Certificate of Disaster Relief Advanced Collective (抗震救災先進集體證書)
- Best Exhibition Award at the 11th Beijing, China SciTech Industry Expo（第十一屆中國北京科技產業博覽會最佳展示獎）
- Outstanding Coverage Awards for 2008 Beijing Olympics and Special Olympics（北京奧運會、殘奧會優秀報導獎）
- Outstanding Internet Coverage Award（優秀網絡報導獎）

Chairman's **Statement**

- Olympic Games Coverage Advanced Collective(奧運報道先進集體)
- Annual Ten Best Brands of New Media (Internet) Award(中國(網絡)新媒體年度十大品牌)
- Ten Most Valuable Brands of New Media(最具品牌價值新媒體十強)
- Certification of Donation of the "100M Long Manuscript Roll of Olympic Games Journalists" ("奧運記者手迹百米長卷"捐贈證書)
- Outstanding Olympic Games Themed Internet Seminar Award(網上大講堂「優秀奧運主題講座」獎)
- Outstanding Interactive and Creative Internet Seminar Award(網上大講堂「優秀互動創意」獎)
- The Most Influential Company in China's Copyright Industry(中國版權產業最具影響力企業)
- Ten Best Innovative New Media Brand Award(十大創新傳媒品牌)
- Top 100 High Growth Enterprises in China's Creativity Industry(中國創意產業高成長企業100強)
- As a Standing Member of the China Institute of the World Trade Organization (2005-2008) (2005-2008中國世界貿易組織研究會常務理事單位)

In 2008, the Group continued to strive to align our business development with corporate social responsibility and was devoted to our role as a new medium for a communal and harmonious growth with the society.

Our involvement and the impact generated in these key social events have significantly enhanced our reputation and influence in the new media industry in China.

Outlook

China is one of the largest and fastest growing markets for Internet services, Internet TV and mobile TV and online games. We are committed to realizing the market potentials in these market sectors and exploring opportunities for further growth and expansion. We believe that companies with all required legal licenses, advanced technology and creative ideas can bring compelling products and services to customers and we are well positioned to become a leading player in these market sectors.

Looking forward to 2009, the Group will continue to focus on brand building and optimization of our broadcasting platform. Under the financial tsunami, corporate clients may have to cut expenses on brand promotion for 2009. However, we are confident that with our strong advertising platform of VODone BUS, which can accurately deliver commercial messages in various formats, we are well positioned to demonstrate our unique edge and will be the No. 1 choice for an increasing number of corporate clients.

China's recent issuance of 3G licenses provides new opportunities to the Group. Our sister company and strategic partner VODone Telemedia (a State-owned enterprise) is one of the five recipients in the PRC that have received a 3G mobile TV license. We have set up a specialty team to work on the roll out of mobile TV programmes when 3G mobile phones officially launch in the PRC market, we believe we are well positioned to capture this market opportunity with our extensive experience, established platform and strategic partnership.

We believe content is key for the rapidly changing tele-media sector. We continuously strive to improve our content, for example in 2008 we established a Movie Channel, which shows popular movies from around the world. Of similar significance is the agreement with Television Broadcasts Limited ("TVB"), enabling VODONE to broadcast many of its favoured TV series on the VODone Portal. In 2009, VODONE plans to launch a number of new live programmes, such as a finance channel which caters for investors of the China and Hong Kong stock markets.

For on-line gaming, after thorough planning and execution, we have launched three games since February 2009, they were marketed through our VODone BUS platform and leveraged on the advantage of our massive on-line platform. The games were well-received so we intend to launch more games in 2009 to take a more active role in this growing market of the PRC.

Chairman's **Statement**

In terms of an online shopping platform, the Group launched a new "Happy Shoppers" (快樂易購) channel (1go.vodone.com) to attract high-end brand name suppliers. This video channel will provide the 298 million netizens with a brand-new e-shopping experience in apparels, cosmetics, luxury goods, digital products and its target audiences are high-end groups including office workers, business people and celebrities. Not only can the users try our "virtual changing room" and enjoy discounts on shopping items, they can even find rare and limited edition items. In the meantime, suppliers can use our channel to promote their brands and products to an extensive audience.

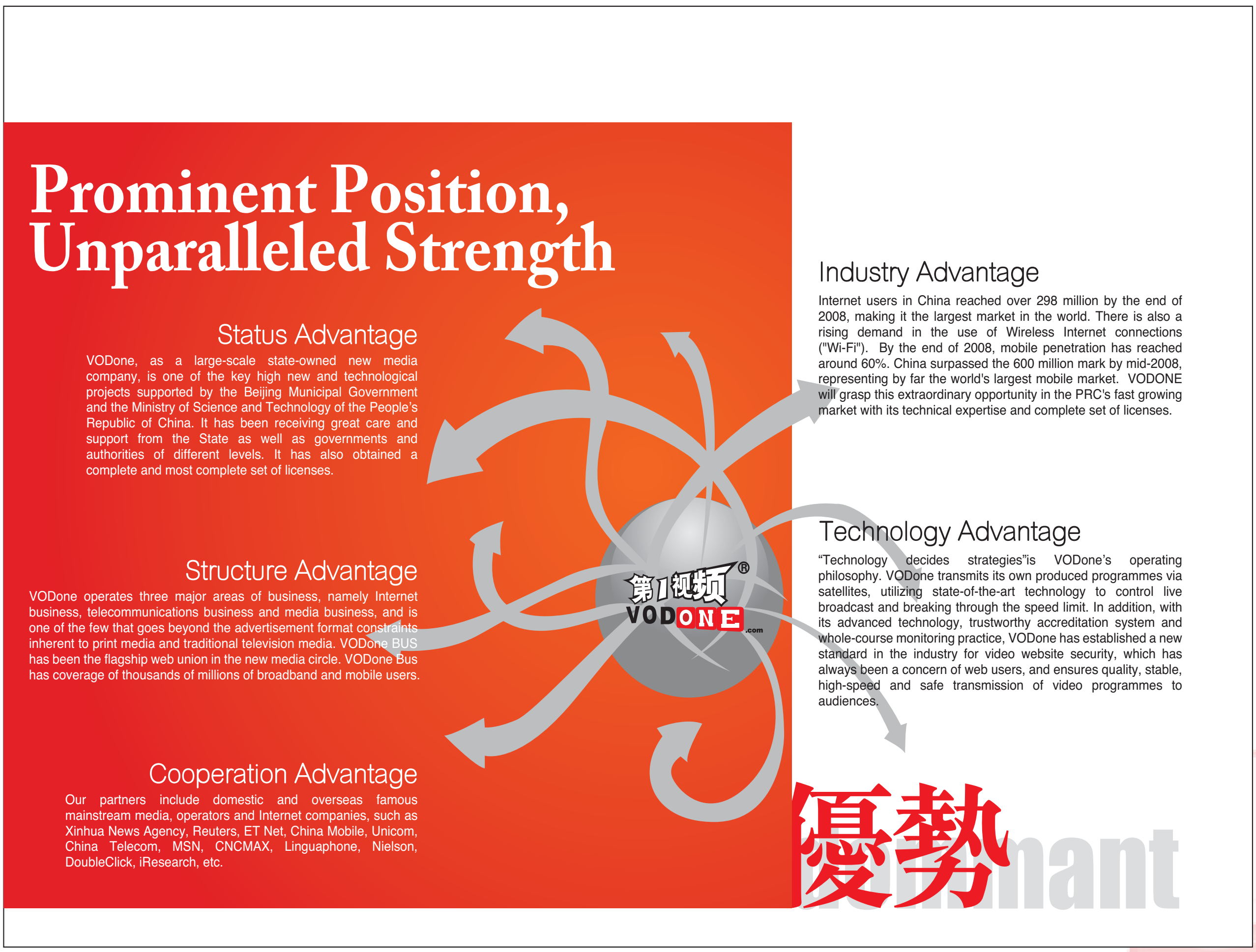
In addition, the Group will continue to enhance its Internet video broadcasting, VODone BUS's marketing and mobile value-added service businesses in a bid to expand its businesses of higher margins.

Appreciation

On behalf of the board, I would like to extend our gratitude to our shareholders for their trust and support, and our management team and employees for their concerted efforts, dedication and commitment, particularly during these challenging times. We will improve performance across our business divisions through continuous innovations and we expect to make significant progress in 2009.

Zhang Lijun
Chairman

Hong Kong, 20 April, 2009



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 2008.

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 19 to the financial statements).

Results and Dividends

The Group's net loss attributable to shareholders for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 102.

Segment Information

The segment information of the Group for the year ended 31 December 2008 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 103 to 104. 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 29 and 34 respectively to the financial statements.

Directors' Report

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 44 to the financial statements.

Distributable Reserves

At 31 December 2008, the Company's reserves available for distribution in specie were nil (2007: nil). The Company's share premium account in the amount of HK$868,746,000 (2007: HK$838,366,000) 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	96.83%
	• the five largest suppliers	99.89%
(b)	Percentage of sales attributable to:	
	• the largest customer	99.32%
	• the five largest customers	99.70%

Directors' Report

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 2006, 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	
Yue Hong Chu, George	(appointed on 6 October 2008)
Sin, Hendrick	(appointed on 2 March 2009)
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
Wang Linan

In accordance with the Company's bye-laws, all the directors, including the independent non-executive directors are subject to retirement by rotation. Mr. Zhang Lijun and Ms. Wang Chun will, in accordance with bye-law 99(A), retire by rotation at the forthcoming annual general meeting of the Company. Mr. Zhang Lijun and Ms. Wang Chun, being eligible to sit for re-election, intend to offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 102(B), Mr. Yue Hong Chu, George and Mr. Sin Hendrick, who were appointed by the directors of the Company on 6 October 2008 and 2 March 2009 respectively, shall retire at the forthcoming annual general meeting and being eligible, shall stand for re-election at that meeting.

Directors' Report

Biographical Details of the Directors of the Company and Senior Management of the Group

Chairman

ZHANG Lijun, aged 46, holds a Doctoral degree in economics. He is the Chairman of VODone Group, China's Representative to the Asia-Pacific Economic Cooperation ("APEC") Business Advisory Council, Chairman of China APEC Development Council, Vice Chairman of China Social Workers Association, Vice President of China WTO Research Institute, Honorary President of the Council of Beijing Association of Online Media, Standing Member of China Copyright Council, Professor of Nankai University, Honorary Professor of the University of Sydney, Australia, and an experienced expert in China's Internet media.

Dr. Zhang previously held the following positions: Assistant to the General Manager and Deputy General Manager of International Industrial Company ("國際實業公司") of the China Minmetals Corporation, which is a company under the Ministry of Foreign Trade and Economic Cooperation, PRC, and the Deputy Manager of the General Trade Department of the China Minmetals Corporation, Chairman and Party Secretary of Sino-Interest Worldwide Economic Group under the National Development and Reform Commission and Economic Restructuring Office of the State Council, Chairman of Sino-Sky Telecom, etc. He is the spouse of Ms. Wang Chun.

Executive directors

WANG Chun, aged 44, holds a Doctoral degree in World Economics and is the Chief Operating Officer of VODone Group (www.vodone.com). She is also the Vice President of the Council of Beijing Association of Online Media, Member of the Central Women's Work Committee of the Central Committee of China Zhi Gong Party, and an experienced expert in Internet trade.

In 1996, Ms Wang spent a long time in the United States and Canada for the business of Sino-Canada International Investment (Group) Company Limited ("加中國際投資集團有限公司"), for which she served as a Director and Deputy General Manager as well as the Chief Representative of its Beijing Office. In 1998, Ms Wang returned to China and opened China Huatian Net Supermarket ("中國華天超市網"), the first e-supermarket in China and originator of China's B2B and B2C e-business. She later joined Sino-Sky Telecom, responsible for the management of one of the largest telecommunication value-added business service platforms in China. She was appointed the Chief Operating Officer of Sino-Sky Telecom later. From 2005 to present, Ms Wang has been the Chief Operating Officer of VODone Group. She is the spouse of Dr. Zhang Lijun.

Directors' Report

YUE Hong Chu George, aged 36, Chief Technology Officer of VODone Limited, an senior expert in Internet software engineering and project management. He has over 10 years of solid experience in technology planning, implementation and management at a number of multinational companies listed on Nasdaq and NYSE, and was in charge of various IT projects in the hi-tech industry in North America and the Greater China regions. He graduated from University of British Columbia in Canada with honors and first ranking in the whole faculty. He obtained his Masters degree from Stanford University in USA. He is a licensed Professional Engineer in Ontario, Canada. He has experienced the ups and downs of the global Internet development and is a leader in full aspects of the Internet technology, management and strategic planning. He does not have any relationship with the other Directors of the Company.

SIN, Hendrick, aged 34, was appointed as an executive director in March 2009. Mr. Sin has 12 years of extensive experience in investment banking and has advised on a wide range of notable equity fund raisings and merger & acquisition transactions involving PRC and Hong Kong corporates, including leading companies in the telecoms/technology, shipping, real estates, retail, energy & resources and health care sectors. Prior to joining the Company, he was a director of Investment Banking Advisory at HSBC. Mr. Sin graduated from Stanford University with a Master of Science degree in Engineering Economics Systems and Operations Research. He also holds three Bachelor of Science degrees (with college honors) in Computer Science/Mathematics, Economics and Industrial Management from Carnegie Mellon University. Mr. Sin is a member of The Hong Kong Institute of Directors. He does not have any relationship with the other Directors of the Company.

Independent non-executive directors

Dr. LOKE Yu alias LOKE Hoi Lam, aged 60, 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.

Directors' Report

WANG Zhichen, aged 67, 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 60, 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

RONG Song, age 45, Chief Editor and operation director of VODone portal website. Director of China Association of Middle East Studies, scholar for Middle East matters. He graduated from Beijing Foreign Study University majored in English, Iran Tehran University art and literature school majored in history. He had adequate research experience in news collecting and editing, international politics, Middle East matters, and cultural exchange, etc. Prior to joining the company, he was a vice-president and chief editor of HuaSheng Online, executive chief editor of Daqi.com, director of International news department of the Xinhua News Agency, special researcher of institute of the Xinhua news agency, vice-director of middle-east and Africa news department of the Xinhua new agency, Tehran branch office journalist of the Xinhua news agency.

YAN Man Sing, Frankie, Chief Financial Officer and Company Secretary, aged 51, 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.

Directors' Report

KWOK Chi Keung, Andy, aged 41, is the Financial Controller of the Company. He has over 16 years' experience in accounting, auditing and financial management. He holds a Bachelor of Science in Economics and is a Certified Public Accountant (Practising) in Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Before he joined the Company in 2008, he was the financial controller of two listed companies on the main board of the Stock Exchange of Hong Kong.

WANG Xiang, aged 34, 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 30, 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 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 40, 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.

YAO Yi, aged 41, the Deputy Chief Editor of VODone Group since August 2007. 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' Report

Consultant

On 1 April, 2009, we have appointed Wacox International Limited, a company wholly-owned by Dr. Lee Ka Yam, Danny, as a consultant of the Group.

Dr. LEE Ka Yam, Danny, aged 48, previously worked in Ogilvy Group (China, Hong Kong and Taiwan) from 1990 to 2008 where he last held the position of vice chairman, chief operating and financial officer. He has extensive experience in strategic management, merger and acquisitions, assurance and financial advisory work, particularly in the areas of marketing communications and media industry. He is also a fellow member of the Chartered Association of Certified Accountants UK, the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England and Wales.

Dr. Lee obtained a Master of Arts degree in international accounting from the City University of Hong Kong, a Master of Arts degree in English for the professions and a Doctorate degree in business administration, both from the Hong Kong Polytechnic University and a Master of Science degree in electronic commerce and internet computing from the University of Hong Kong.

Directors' Service Contracts

Mr. Yue Hong Chu, George, has entered into a service contract with the Company for an initial term of two years commencing on 1 January, 2008. Mr. Hendrick Sin has entered into a service contract with the Company for an initial term of one year commencing on 2 March 2009.

Directors' Interests and Short Position in Shares and Underlying Shares of the Company

As at 31 December 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	338,467,376 (Note 1)	19.55%
Wang Chun	Beneficial owner/Interest of spouse	338,467,376 (Note 2)	19.55%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	80,000	0.005% (Note 3)

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

Note 3: Calculated by rounding to three decimal places.

Directors' Report

(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
Zhang Lijun	Beneficial owner/Interest of spouse	27,200,000 (Notes 1, 2)	1.57%
Wang Chun	Beneficial owner/Interest of spouse	27,200,000 (Notes 1, 3)	1.57%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	1,605,000 (Note 1)	0.09%
Wang Linan	Beneficial owner	1,000,000 (Note 1)	0.06%
Wang Zhichen	Beneficial owner	1,000,000 (Note 1)	0.06%
Yue Hong Chu, George	Beneficial Owner	4,000,000 (Note 1)	0.23%

Note 1: Details of the above share options granted by the Company are set out in note 34 to these financial statements.

Note 2: Of these 27,200,000 share options, 12,000,000 share options are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 15,200,000 share options through the interest of his spouse, Ms. Wang Chun.

Note 3: Of these 27,200,000 share options, 15,200,000 share options are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 12,000,000 share options through the interest of her spouse, Dr. Zhang Lijun.

Save as disclosed herein, as at 31 December 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.

Directors' Report

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 31 October, 2008, a total of 66,300,000 share options were granted to 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$0.10 per share. The options are exercisable during the period from 31 October 2008 to 30 October 2011.

On 6 November, 2008, a total of 22,000,000 share options were granted to directors of the Group and eligible participants. The options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$0.116 per share. The options are exercisable during the period from 6 November 2008 to 5 November 2011.

On 4 December, 2008 a total of 2,400,000 share options were granted to 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$0.127 per share. The options are exercisable during the period from 4 December 2008 to 3 December 2011.

The share options granted, exercised and outstanding at 31 December 2008 were detailed in note 34 to the financial statements.

Subsequent to 31 December 2008, a total of 17,000,000 share options were granted to a director on 2 March, 2009 . The options were granted at a cash consideration of HK$1.00 and entitled the director to subscribe for ordinary shares at an exercise price of HK$0.157 per share. The options are exercisable during the period from 2 March 2009 to 1 March 2012.

On 1 April, 2009, a total of 5,000,000 share options were granted to a consultant at a cash consideration of HK$1.00 and entitled the consultant to subscribe for ordinary shares at an exercise price of HK$0.153 per share. The options were exercisable during the period from 1 April 2009 to 31 March 2012.

Directors' **Report**

Directors' Interests in Contracts

Except for those transactions set out in note 35 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 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

Name of shareholder	Number of issued shares held	% of the issued share capital
Zhang Lijun	338,467,376 (Note 1)	19.55%
Wang Chun	338,467,376 (Note 2)	19.55%

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

Connected and Related Party Transactions

During the year, the Group had certain related party transactions, further details of which are included in note 35 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.

Directors' Report

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 2008 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.

Auditors

The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited. The Company's auditors will change their name from Shu Lun Pan Horwath Hong Kong CPA Limited to Shu Lun Pan Hong Kong CPA Limited and will merge their business with BDO McCabe Lo Limited on 1 May 2009. On the same date, BDO McCabe Lo Limited will change their name to BDO Limited. As a result of these changes, a resolution will be proposed at the 2009 AGM to appoint BDO McCabe Lo Limited (to be renamed as BDO Limited on 1 May 2009) as the Company's auditors.

On behalf of the Board

Wang Chun
Executive Director and Chief Operating Officer

Hong Kong
20 April 2009

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 2008.

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 2008, 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.

Corporate Governance **Report**

As at 31 December, 2008, the Board comprises six members (as at 31 December 2007 - five members), three of which are Executive Directors and three are independent non-executive Directors. Collectively, they bring a broad range of commercial, financial, technology, 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 "Directors' Report" 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.

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 subject to retirement at least once every three years. Directors, who retire, if eligible, may sit for reelection 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.

Corporate Governance **Report**

Attendance of Directors at Board and Committee Meetings

During the year, the Board has held 10 regular meetings, 2 audit committee meetings, 1 remuneration committee meeting and 1 nomination committee meeting. 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	Nomination Committee
Executive Directors				
Zhang Lijun	10/10	n/a	1/1	1/1
Wang Chun	10/10	n/a	1/1	1/1
Yue Hong Chu, George (1)	3/3	n/a	n/a	n/a
Wu Fred Fong (2)	2/2	n/a	n/a	n/a
Lu Xing (2)	0/2	n/a	n/a	n/a
Yu Jianmeng (2)	0/2	n/a	n/a	n/a
Independent Non-executive Directors				
Wang Zhichen	9/10	2/2	1/1	1/1
Wang Linan	9/10	2/2	1/1	1/1
Loke Yu alias Loke Hoi Lam	7/10	2/2	1/1	1/1

Notes:

(1) appointed on 6 October 2008.

(2) retired/resigned on 31 January 2008.

Corporate Governance Report

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, the Remuneration Committee in 2007 and the Nomination Committee in 2008.

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;

Corporate Governance **Report**

- 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 twice in 2008 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	$630,000
Non-audit services:	Nil

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.

Corporate Governance **Report**

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 recommends 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. In making decisions on nomination of Directors, the Committee 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.

Corporate Governance **Report**

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 15 of the "Directors' Report" and in note 34 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 40 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.

Corporate and Social Responsibility **Report**

Having the status of a state-owned corporation, VODONE is very concerned about prominent events in the PRC. As a result, VODONE played a significant role during the 512 Sichuan Earthquake. The involvement of VODONE as the only new media partner of the Beijing International Media Centre ("BIMC") must also not be omitted.

Sichuan Earthquake

VODONE Web Alliance Programme
Tens of thousands of web masters volunteered to help

Immediately after the Sichuan Earthquake, VODONE sent a group of volunteers to the shock-affected areas such as Qingchuan and Beichuan within 24 hours to help the victims and report the latest news to netizens. This prompt voluntary work was appreciated by web users and received overwhelming response. With the tremendous support from the Beijing Internet Management Office, VODONE demonstrated the power of new media and allied with a number of famous websites to launch a 7x24 marathon web programme "Join hearts to move the world" to raise funds for the quake victims. This charity programme was broadcasted over the Internet continuously for days, attracting a great number of visitors with hit rates of over 4 million and over 20 thousand messages left on chat boards. VODONE also donated RMB1m to the victims of the earthquake.

Corporate and Social Responsibility **Report**

Beijing Olympics

VODONE joined hands with the Beijing Olympics to show the world the great culture of China

With its impressive performance and leading position in the industry, VODONE was selected as the only new media partner of the 2008 Beijing International Media Centre ("BIMC"). BIMC served as the reception centre for non-accredited journalists during the 2008 Beijing Olympic Games. We were proud to be a sponsor and provider of broadcasting rooms, editor rooms and a comprehensive set of reporting, editing and broadcasting equipment for Internet video programmes for journalists from all over the world.

Such cooperation between VODONE and BIMC fully demonstrates the great power of China's video websites and new media to the world by broadcasting the "Live China", pooling thousands of webs from different corners of the world and sharing the colours of the Games with Internet visitors. Through a series of cultural and humanity activities aiming at showing Chinese culture, modern Beijing and the Beijing Olympic Games, VODONE succeeded in presenting a fuller and more realistic China to the world and succeeded in letting people know more about our nation. VODONE is proud to make its contribution to the success of the 2008 Beijing Olympic Games.

Management Discussion and **Analysis**

Operating Results

Turnover of the Group was HK$65,922,000, an increase of around 13% compared to last year of HK$58,400,000. Our advertising business experienced an impressive growth in income of 132% over 2007. It was mainly due to the combined effect of our marketing efforts and our enhanced corporate image following the partnership with the 2008 Beijing International Media Centre. Turnover in the first half of 2008 increased by over 200% as compared with the second half of 2007. However the post-olympics market slowdown and the financial crisis caused a slowdown on such income in the second half of the year. Operating loss attributable to shareholders was HK$121,004,000, equivalent to loss of HK 7.1 cents per share, compared with a loss of HK$59,680,000, equivalent to loss of HK 3.8 cents per share last year. In order to expand the sales, build up the branding and image of VODONE, during the year, significant investment was spent in the selling and advertisement exercises, and it would bring in long term benefits to VODONE. Consequently, the selling and marketing expenses were increased to HK$81,800,000 during the financial year 2008 (2007: HK$17,580,000).

Operating Environment

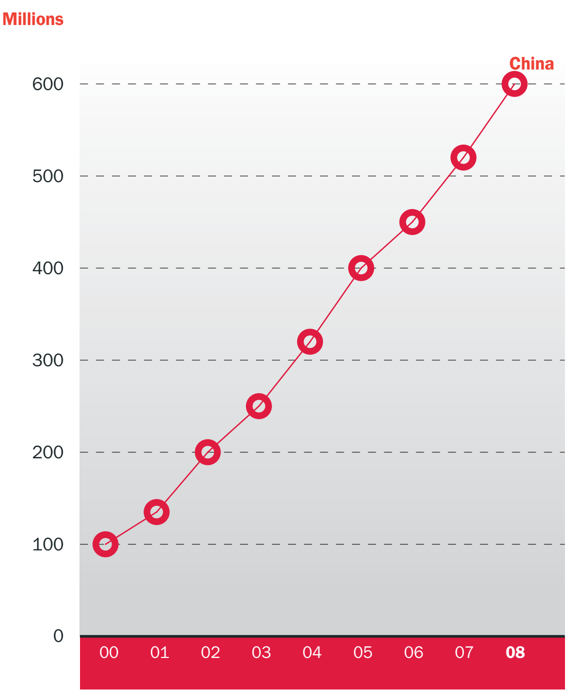
The Group has continued to focus on the development of Internet video and new media businesses and has identified the market potential generated by the convergence of the Internet advertising, broadcasting, gaming and telecommunications markets. The mass population in the PRC has formed a solid foundation for the booming Internet market and will bring about longer term opportunities.

Internet users in China reached over 298 million by the end of 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), the PRC still has plenty of growth potential. As a result of the economic slowdown, companies will look for more cost-effective ways to advertise their products and Internet advertising is the direction they are expected to turn to. For some firms, this has already become a trend. Some sectors like automakers and real property developers have cut spending in newspapers and television, instead they have increased their spending online. Nielson Company estimates that online advertising revenue in China in the third quarter grew 42% from a year earlier to 3.72 billion yuan (USD541 million). Continuation of such growth should benefit the VODone BUS model and advertising on the www.vodone.com portal website.

China's online game market is also of high growth potential. Sales revenue of China's online game market grew by 76.6% in 2008 to 18.38 billion yuan (USD2.69 billion), making it one of the few industries that were not impacted by the world's economic slowdown. Reports show that the number of online gamers in the PRC has reached 49.36 million in 2008, a 22.9% increase over 2007. This number is expected to grow to 94.53 million by 2013, with industry sales revenue hitting 39.76 billion yuan. Online gaming is not quite affected by the economic slowdown mainly due to the fact that it is a low cost entertainment. Domestic companies have taken up nearly two thirds of China's online game market in 2008, with sales revenue grew 60 percent to 11 billion yuan. The online game industry also stimulated 31.28 billion yuan in telecom revenue last year, an increase of 20 percent over 2007. As a result, the Group realises potential in the online game market and has begun to establish its own online games on the www.vodone.com portal.

Management Discussion and **Analysis**

China's mobile phone subscribers



Source: ITU (WTI) Database.

Since the turn of the century, the growth of mobile cellular subscribers has been impressive, with year-on-year growth averaging 24% between 2000 and 2008. By the end of 2008, mobile penetration has reached around 60%. China surpassed the 600 million mark by mid-2008, representing by far the world's largest mobile market. This growth is expected to continue and China's mobile market is likely to grow 7.7% in 2009 despite downward trend in the global market, with handset shipments rising to 239.1 million units. This is partly caused by the Chinese government's initiative to provide subsidies to rural residents for home electronics purchases. The world's largest mobile phone market is expected to see its new subscribers exceed 90 million in 2009. On January 7 2009, China finally issued the third generation ("3G") mobile phone licenses to three mobile operators. The Group has realised such potential and our strategic partner VODone Telemedia already obtained one of the very few licenses issued to broadcast content on 3G mobile phones. Negotiations about the types of operations VODONE will implement with the three network providers of 3G mobiles in the PRC have already begun. The three network providers will collectively spend almost USD60 billion over the next several years to build their respective 3G networks, while the government has set targets for tens of millions of subscribers by 2011. Mobile marketing and mobile consumption in the PRC has already exceeded that of Korea and Japan, with the increase in 3G users, this trend is expected to experience an upward growth since 3G could give subscribers faster internet connections. 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.

Management Discussion and **Analysis**

Business Description

The Group provides tele-media services to its strategic partner, VODone Telemedia Co. Ltd. ("VODONE" or "VODone Telemedia"), which is the first and leading online video media group in China.

VODone Telemedia Company Limited

VODONE is a company incorporated in the PRC in 2005. It is one of the few enterprises in China to own a complete set of licenses to operate video broadcasting on the Internet. VODone Telemedia has contracted the technical and promotional services to the Group, for 50 years. 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 Telemedia is a new media company which includes the Internet, telecommunications and media as well as the first new media company which operates online advertisement broadcasting and live online shows.

It operates a nation-wide audio/video broadband transmission platform, delivering a range of cross media telecommunications contents and value-added services, directly and indirectly, to its customers. 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.

With the perfect communication and media operational experience and a professional team with technical expertise in interviewing, editing, producing and broadcasting, VODone Telemedia has become the online video-broadcasting platform for various video media.

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.

Management Discussion and **Analysis**

Strengths of VODONE

VODONE is one of the few companies that have 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 ("MII" 中華人民共和國信息產業部) and other PRC authorities that VODONE is able to produce and broadcast audio/video 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 unlike others which rely entirely on user generated content (UGC). Following are the license details:

1.	**The Information Office of the State Council of the PRC**	
	Internet News Information Service Permit (Guo Xin Wang Permit No.1112008001) (互聯網新聞信息服務許可證(國新網許可證編號:1112008001))	
2.	**General Administration of Press and Publication of the PRC**	
	Internet Publication Permit (Xin Chu Wang Zheng (Jing) Zi No.026) (互聯網出版許可證(新出網證(京)字026號))	
3.	**The State Administration of Radio Film and Television**	
	(1)	Radio and TV Programme Production and Business Operation License ((Guang She) Zi No.150)) (廣播電視節目製作經營許可證((廣社)字第150號))
	(2)	Information Network Communicated Audio-Video Programme License (0105136) (信息網絡傳播視聽節目許可證(0105136))
4.	**Beijing Communications Administration**	
	(1)	Telecommunication and Information Services Operation Permit (Jing ICP Zheng No.050390 (電信與信息服務業務經營許可證(京ICP證050390號))
	(2)	Approval of Addition of Electronic Notice Service (Telecommunications Business Approval [2006] No.304) (增設電子公告服務欄目的批覆(電信業務審批【2006】第304號函))
5.	**Ministry of Culture of the PRC**	
	Network Culture Operation License (Wen Wang Wen [2005] No.067) (網路文化經營許可證(文網文【2005】067號))	

Management Discussion and **Analysis**

6. The Ministry of Information Industry

(1) The People's Republic of China Value-added Telecom Service Operation License (B2-20050381)
(中華人民共和國增值電信業務經營許可證(B2-20050381))

(2) SMS Access Code Certificate (Hao [2006] 00053-A011)
(短信息類服務接入代碼使用證書(號【2006】00053-A011))

7. Beijing Drug Administration

Internet Drug Information Service Certificate ((Jing)-Jing Ying Xing-2006-0016)
(互聯網藥品信息服務資格證書((京)-經營性-2006-0016))

8. Beijing Municipal Science & Technology Committee

High and New Technology Enterprise Certificate (Jing Ke Gao Zi No.0711008A25921)
(高新技術企業批准證書(京科高字0711008A25921號))

9. The Ministry of Health of the PRC

Wei Wang He Zong No.20
(衛網核總第20號)

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

(i) MSN to form a live broadcasting channel for MSN China providing live video service (http://msn.vodone.com);

(ii) China Unicom CNCMAX to launch live broadcasting channels under the name of "My Broadband World" (寬帶我世界) 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;

Management Discussion and **Analysis**

(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.

Under the Internet regulation announced by the MII and SARFT stating 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 and SARFT have already taken actions vigorously. A very recent example of actions taken by SARFT includes the closing down of 162 websites that did not obtain legal licenses to operate on 31 March 2009. The total number of closed down websites now add up to 341. Apart from the licensing issues, actions have been taken against websites that show improper and pirated content as well. Many of these are currently experiencing lawsuits. VODONE will benefit from the continual implementation of such regulations, since it is one of the very few companies that own the complete set of licenses to operate legally on the Internet in the PRC and has not violated any intellectual property rights.

Achievements and Awards

Some of VODONE's prominent achievements:

- AAA Internet Enterprise Award (互聯網AAA級信用企業)
- China's Advertising New Media Contribution Award 2008 – Internet Video Advertising Award (2008中國廣告新媒體貢獻大獎－網路視頻廣告大獎)
- Contribution to Discipline and Governance for China's Internet Industry 2008 (2008年度互聯網行業自律貢獻獎)
- Top 100 High Growth Enterprises in China's Creativity Industry 2008 (2008中國創意產業高成長企業100強)
- Ten Best New Media of the Most Valuable Brand Value 2008 (2008最具品牌價值新媒體十強)
- Olympic Games Coverage Advanced Collective 2008 (2008"奧運報道先進集體"獎)
- Certificate of Disaster Relief Advanced Collective in 2008 (2008「抗震救災先進集體」證書)
- China's Charitable Corporations in the Internet Industry Award 2008 (2008年度中國互聯網公益企業大獎)
- China's Best Internet Advertising New Media Award 2007-2008 (2007-2008年度中國最佳網絡廣告新媒體獎)
- The Most Influential Enterprises (Brand) Award 2007 (2007年中國最具影響力企業(品牌)獎)
- Ten Best Innovative Brands Among China's Media 2007 (2007中國傳媒機構自主創新十大品牌)
- Ten Best Typical Innovative New Media Recommended by the Expert Committee 2007 (2007專家委員會特別推薦最具典型性十大創新傳媒)
- China's Ten Creative New Media of Best Investment Value 2006 (2006中國十佳最具投資價值創意新媒體)
- Best Emerging Internet Company Award by China Internet Conference 2006 (2006中國互聯網大會網絡新鋭獎)
- Best Marketing Ideas Award by China Internet Conference 2006 (2006中國互聯網大會最佳營銷創意獎)

Management Discussion and **Analysis**

Operation Review

Tele-media service business

VODone Broadcasting Union System (BUS) (bus.vodone.com)

VODone BUS is at present the largest, most valuable and most influential Internet video advertising broadcasting platform in China. It can transmit advertisements in different formats such as video and texts and graphics. As the key revenue generator for VODONE, as of April 2009, the daily page views of VODone BUS reached 150 million with 25 million VODone broadcasts covering over 2 million websites across China, making it the most influential medium. Following the latest upgrade, VODone BUS comprises of eight major channels including the Brand Channel, Finance Channel, Women's Channel and Sports Channel and now has a clearer segmentation of users and advertisements. VODone BUS can help advertisers deliver their ads in a more accurate and convenient manner so as to advertise their brands more effectively. In addition, the Group continues to innovate and develop new formats of advertising in order to meet different needs of different advertisers.

www.vodone.com

VODone Portal (www.vodone.com)

This largest video portal provides 298 million Chinese netizens with easy navigation to search for videos, aggregate videos from all over and spreads out excitements. The portal experiences constant changes and upgrades to keep up-to-date with netizens' requirements. The portal not only keeps but augments many channels, such as news, finance, sports, entertainment, original creation, games as well as integrates the various products of its subsidiary with VODone BUS as the representative. It also provides an effective marketing platform for our business partners, online advertisers and marketers. Our product and service offerings include email, blogs, online advertisements and various types of content, as mentioned previously. This enables a clearer classification of video broadcasting and a more extensive coverage for the enhanced VODone Portal. An example of the enhancements VODone Portal has achieved includes the newly established Movie Channel, which shows popular movies from all over the world. Of similar significance is the agreement with Television Broadcasts Limited ("TVB"), allowing

Management Discussion and **Analysis**

VODONE to broadcast many of its favoured TV series on VODone Portal. Contents on the portal will continuously be enhanced and upgraded in 2009. VODONE is currently in advanced discussion with foreign companies to bring more unique contents into China. Another newly launched feature of VODONE is the three games on its portal, “Warlords of the Three Kingdoms”(三國風雲), “My Little Three Kingdoms”(泡麵三國) and “Red Hot Three Kingdoms”(熱血三國). Since the launch of these three games, they have already attracted tens of thousands of players and subscribers. As a result of such positive feedback, VODONE intends to introduce more games to its users. This would not only bring more page views to the VODone Portal, but would ultimately attract more advertisers as well.

VODone Live (live.vodone.com)

One big feature of VODONE is its self-created video programmes and live broadcasting of such programmes with online interactions. VODONE provides a great number of channels for 298 million Chinese netizens to choose from. In 2009, VODONE plans to launch some new live programmes, with particular focus on its finance channel. Such live programmes will concentrate on the analysis of A and H shares and various Hong Kong stocks. VODONE broadcasts China to the world as well as the world to China.

Management Discussion and **Analysis**

Financial Review

Tele-media service business

The tele-media service business contributed a turnover of HK$65,713,000 to the Group in the financial year of 2008, an increase of 14% from 2007. The advertising business recorded a growth in income of 132% over 2007, which was mainly generated from the provision of services to VODone BUS. Such increase in turnover was due to the growth of advertisement market in the first half of 2008, the pre-Olympic games effect and the combined effect of our marketing efforts and our enhanced corporate image following the partnership with the 2008 Beijing International Media Centre. In the second half year of 2008, due to the slowdown in the operating environment resulting from the post-Olympic games and the financial tsunami, turnover in the second half of 2008 was adversely affected. Turnover in the first half of 2008 increased by over 200% as compared with the second half of 2007.

Liquidity and Financial Resources

As at 31 December 2008, the Group had HK$249,846,000 cash and cash equivalents (2007: HK$553,601,000). Working capital was HK$245,578,000 as compared with the working capital of HK$673,583,000 at the end of last year. The decrease in liquidity of the Group was largely the result of the repurchase of the HK$209,300,000 convertible notes during the year.

On 31 October 2008, the Group granted 66,300,000 share options exercisable at HK$0.1 each. On 6 November 2008, the Group granted 22,000,000 share options exercisable at HK$0.116 each and on 4 December 2008, the Group has granted 2,400,000 share options exercisable at HK$0.127 each. During 2008, a total of 600,000 share options were exercised by the participants. The total proceeds arising from the exercise of such share options in 2008 amounted to HK$769,000 and were used as general working capital of the Group.

As at 31 December 2008, the Group's current ratio was 4.7 (2007: 40.9), debt equity ratio and gearing ratio (i.e., interest bearing bank loans and other borrowings to shareholders' equity) were lowered to 0.002 (2007: 0.58) and Nil (2007: 0.58) respectively.

Management Discussion and Analysis

Capital Structure

As at 31 December 2008, the Group had total assets of HK$682,216,000 (2007: HK$1,016,129,000) which were financed by shareholders' funds of HK$589,852,000 (2007: HK$615,029,000), total liabilities of HK$66,413,000 (2007: HK$376,533,000) and minority interests of HK$25,951,000 (2007: HK$24,567,000).

In 2007, the Group substantially expanded its capital base, mainly due to the issuance of convertible notes in July 2007 to raise a sum of HK$410,000,000. 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. Subsequent to the balance sheet date, the noteholder of this remaining balance exercised the conversion. Amount of HK$57,200,000, being 65% of the principal amount of HK$88,000,000 was repaid in cash on 25 March 2009 with the remaining 35% was converted into new Shares of the Company at a conversion price of HK$1.30.

Employees Remuneration and Benefits

As at 31 December 2008, the Group had 200 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.

Management Discussion and **Analysis**

Prospects

The development of the PRC has made it become 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 advertising will continue to 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 even against the backdrop of slow economic growth. Similarly, Internet advertising especially in video format will also become a popular means of advertising. A prominent factor is the low cost in comparison to conventional advertising methods, but it is also much more efficient and effective. As companies begin to cut advertising budgets, internet advertisements may be the only beneficiary.

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. Possession of the full set of licences allows VODONE to expand into the business of providing news content, shopping and games etc. It will boost the page view for VODone Portal and VODone Live, as well as online advertising which will bring more revenue to VODONE. The brand recognition is arising owing to the promotions nationwide, the channel set up for reporting the earthquakes in Sichuan and being the only new media partner of the Beijing International Media Centre. The branding effect helps promote the recognition of VODONE, which attracts more advertisers and brings more revenue to the Group. Likewise, VODONE has also realised positive prospects on Internet gaming, and will continue to focus more in this area. VODone BUS will continue to be the main driver of income for VODONE in 2009. It operates a web alliance which recruits various types of website members. 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 other 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 also increased dramatically. This already shows the performance and progress made by VODone BUS. VODone BUS has also recently experienced extensive upgrades to its platform, making it more effective and efficient for its users. It is 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. The Group has grasped this golden opportunity to become the leading player in video infotainment and the provider of Internet advertising.

The Company experienced a slowdown of video advertisements in the second half of the year due to the effects of the global financial crisis. However, it should be noted that advertising revenue had still in fact increased prominently compared to that of the previous year. Despite negative impacts caused by the economic climate, the management will continue to improve services provided by VODONE and remain optimistic about the business prospect in 2009.

End of Year Dividend

The Board has resolved not to declare any dividend for the year ended 31 December 2008.

Independent Auditors' **Report**

Horwath

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 42 to 102, which comprise the consolidated and company balance sheets as at 31 December 2008, the consolidated income statement, 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 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 disclosure requirements of 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.

Auditors' 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.

Independent Auditors' **Report**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2008 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

20 April 2009
Chan Kam Wing, Clement
Practising Certificate number P02038

Consolidated Income **Statement**

For the year ended 31 December 2008

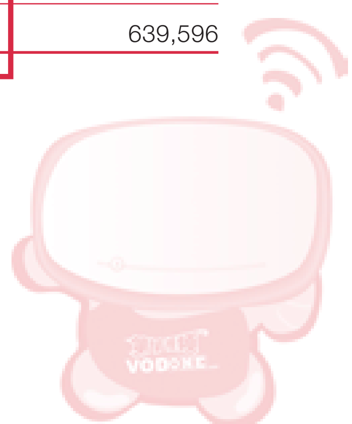
	Note	**2008 HK$'000**	2007 HK$'000
CONTINUING OPERATION			
Revenue	6	**65,922**	58,400
Cost of revenue		**(45,822)**	(31,806)
Gross profit		**20,100**	26,594
Other income	6	**5,655**	8,396
Other gains and losses	7	**69,895**	25,808
Selling and marketing expenses		**(81,800)**	(17,580)
Administrative expenses		**(79,235)**	(86,387)
Other operating expenses		**(24,747)**	(7,953)
Finance costs	8	**(29,974)**	(22,916)
Share of results of an associate		**(2,412)**	(20)
LOSS BEFORE INCOME TAX	9	**(122,518)**	(74,058)
Income tax	12	**(20)**	–
LOSS FOR THE YEAR FROM CONTINUING OPERATION		**(122,538)**	(74,058)
DISCONTINUED OPERATION			
Profit for the year from discontinued operation	13	**–**	11,872
LOSS FOR THE YEAR		**(122,538)**	(62,186)
ATTRIBUTABLE TO:			
Equity holders of the Company	14	**(121,004)**	(59,680)
Minority interests		**(1,534)**	(2,506)
		(122,538)	(62,186)
LOSS PER SHARE	15		
Basic (HK cents)			
– from continuing and discontinued operations		**(7.1 cents)**	(3.8 cents)
– from continuing operation		**(7.1 cents)**	(4.7 cents)
Diluted (HK cents)			
– from continuing and discontinued operations		**N/A**	(4.3 cents)
– from continuing operation		**N/A**	(5.1 cents)

The accompanying notes form part of these consolidated financial statements.

Consolidated Balance **Sheet**

At 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**22,268**	16,418
Interest in an associate	17	**52,444**	48,034
Goodwill	18	**265,188**	231,792
Other receivable	20	**19,495**	19,016
Deposits for acquisition of property, plant and equipment		**10,853**	10,399
		370,248	325,659
CURRENT ASSETS			
Accounts receivable	21	**148**	4,629
Other receivables, deposits and prepayments	22	**40,923**	97,648
Amount due from an associate	35(d)	**16,560**	30,371
Amount due from a related company	35(c)	**4,491**	4,221
Bank balances and cash	23	**249,846**	553,601
		311,968	690,470
CURRENT LIABILITIES			
Other payables and accruals	24	**64,947**	14,895
Deposits received		**21**	570
Obligations under finance leases	25	**8**	8
Other borrowing	27	**1,414**	1,414
		66,390	16,887
NET CURRENT ASSETS		**245,578**	673,583
TOTAL ASSETS LESS CURRENT LIABILITIES		**615,826**	999,242
NON-CURRENT LIABILITIES			
Obligations under finance leases	25	**23**	32
Convertible notes	26	**–**	359,614
		23	359,646
NET ASSETS		**615,803**	639,596
EQUITY			
Share capital	29	**17,314**	16,441
Shares to be issued	30	**8,292**	–
Reserves		**564,246**	598,588
Equity attributable to equity holders of the Company		**589,852**	615,029
Minority interests		**25,951**	24,567
TOTAL EQUITY		**615,803**	639,596



ZHANG LIJUN
Director

WANG CHUN
Director

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Changes in **Equity**

For the year ended 31 December 2008

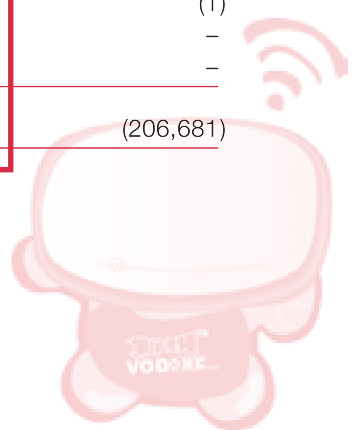
	Attributable to equity holders of the Company										
	Share capital HK$'000	Shares to be issued HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Statutory reserves HK$'000	Convertible note reserve HK$'000	Share-based compensation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Minority interests HK$'000	Total 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 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 expenses for the year	–	–	–	–	–	–	–	11,825	(59,680)	(2,283)	(50,138)
Disposal of a subsidiary	–	–	–	–	(1,522)	–	–	(532)	1,522	(2,945)	(3,477)
Shares issued on conversion of convertible notes	1,052	–	66,467	–	–	(16,492)	–	–	–	–	51,027
Share issued on exercise of share options	1,481	–	224,847	–	–	–	(31,971)	–	–	–	194,357
Recognition of share-based payment expense	–	–	–	–	–	–	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
Net income recognised directly in equity - exchange differences arising on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	–	51,935	–	2,918	54,853
Loss for the year	–	–	–	–	–	–	–	–	(121,004)	(1,534)	(122,538)
Total recognised income and expenses for the year	–	–	–	–	–	–	–	51,935	(121,004)	1,384	(67,685)
Repurchase of convertible notes (note 29(i))	867	8,292	29,475	–	–	–	–	–	–	–	38,634
Share issued on exercise of share options (note 29(ii))	6	–	905	–	–	–	(142)	–	–	–	769
Recognition of share-based payment expense	–	–	–	–	–	–	4,489	–	–	–	4,489
At 31 December 2008	17,314	8,292	868,746	33,474	–	–	22,170	63,443	(423,587)	25,951	615,803

The accompanying notes form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before income tax from		
– continued operation	**(122,518)**	(74,058)
– discontinued operation	**–**	11,872
Loss before income tax	**(122,518)**	(62,186)
Provision for inventories	**–**	12
Allowance for doubtful debts	**–**	366
Depreciation of property, plant and equipment	**8,881**	2,424
Amortisation of intangible assets	**–**	3,268
Loss on disposal of property, plant and equipment	**–**	63
Foreign exchange losses, net	**3,777**	6,342
Interest income	**(5,655)**	(8,291)
Interest expense	**–**	13
Imputed interest of convertible notes	**29,972**	22,915
Finance lease charge	**2**	1
Fair value gain on derivative component of convertible notes	**(78,672)**	(42,413)
Issuing cost allocated to derivative component of convertible notes	**–**	9,630
Share of results of an associate	**2,412**	20
Share-based payment expense in respect of granting of share options	**4,489**	32,803
Loss on disposal of available-for-sale investment	**–**	103
Gain on disposal of a subsidiary	**–**	(17,787)
Operating cash flows before working capital changes	**(157,312)**	(52,717)
Decrease in inventories	**–**	234
Decrease/(increase) in accounts receivable	**4,704**	(5,092)
Decrease/(increase) in other receivables, deposits and prepayments	**62,452**	(94,005)
Decrease/(increase) in amount due from an associate	**15,268**	(19,598)
Decrease/(increase) in amount due from a related company	**233**	(8,771)
Decrease in accounts payable	**–**	(3,764)
Decrease in other payables and accruals	**(7,327)**	(10,686)
Decrease in deposits received	**(549)**	(10,612)
Decrease in amount due to a related company	**–**	(758)
Effect of foreign exchange rate changes	**1,609**	(898)
Net cash used in operations	**(80,922)**	(206,667)
Interest paid on other borrowings	**–**	(13)
PRC enterprise income tax paid	**–**	(1)
Interest paid on convertible notes	**(5,780)**	–
Hong Kong profits tax paid	**(20)**	–
Net cash used in operating activities	**(86,722)**	(206,681)



Consolidated Cash Flow **Statement**

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(13,753)**	(16,899)
Disposal of a subsidiary	**–**	(1,613)
Interest received	**4,255**	8,072
Net cash used in investing activities	**(9,498)**	(10,440)
FINANCING ACTIVITIES		
Net proceeds from issue of shares	**769**	194,357
Net proceeds from issue of convertible notes	**–**	369,482
Repurchase of convertible notes	**(209,300)**	–
Repayment of finance lease obligations	**(11)**	(1)
Net cash (used in)/generated from financing activities	**(208,542)**	563,838
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(304,762)**	346,717
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**553,601**	206,320
Effect of foreign exchange rate changes	**1,007**	564
CASH AND CASH EQUIVALENTS AT END OF YEAR	**249,846**	553,601
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**249,846**	553,601

The accompanying notes form part of these consolidated financial statements.

Company Balance Sheet

At 31 December 2008

	Note	**2008 HK$'000**	2007 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,492**	2,229
Interests in subsidiaries	19	**593,723**	593,589
		595,215	595,818
CURRENT ASSETS			
Deposits and prepayments	22	**2,878**	2,827
Amount due from a related company	35 (c)	**33**	33
Bank balances and cash		**209,836**	436,439
		212,747	439,299
CURRENT LIABILITIES			
Other payables and accruals	24	**62,234**	11,957
Deposits received		**21**	570
Amounts due to subsidiaries	19	**22,890**	1,148
Obligations under finance leases	25	**8**	8
		85,153	13,683
NET CURRENT ASSETS		**127,594**	425,616
TOTAL ASSETS LESS CURRENT LIABILITIES		**722,809**	1,021,434
NON-CURRENT LIABILITIES			
Obligations under finance leases	25	**23**	32
Convertible notes	26	**–**	359,614
		23	359,646
NET ASSETS		**722,786**	661,788
EQUITY			
Share capital	29	**17,314**	16,441
Shares to be issued	30	**8,292**	–
Reserves	31	**697,180**	645,347
TOTAL EQUITY		**722,786**	661,788

ZHANG LIJUN
Director

WANG CHUN
Director

The accompanying notes form part of these consolidated financial statements.

Notes to the Financial **Statements**

For the year ended 31 December 2008

1. Corporate Information

The registered office of VODone Limited is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

During the year, the Group is principally engaged in tele-media service business in the PRC.

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 adoption of HK(IFRIC) - Int 11 "HKFRS 2 - Group and treasury share transactions", HK(IFRIC) - Int 12 "Service concession arrangements", HK(IFRIC) - Int 14 "HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" and HKAS 39 & HKFRS 7 Amendments "Reclassification of financial assets" has no impact on the financial statements.

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

HKAS 1 (Revised)	Presentation of financial statements (i)
HKAS 23 (Revised)	Borrowing costs (i)
HKAS 27 (Revised)	Consolidated and separate financial statements (ii)
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation (i)
HKAS 39 (Amendment)	Financial instruments: recognition and measurement - eligible hedged items (ii)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate (i)
HKFRS 1 (Revised)	First-time adoption of HKFRSs (ii)
HKFRS 2 (Amendment)	Vesting conditions and cancellations (i)
HKFRS 3 (Revised)	Business combinations (ii)
HKFRS 7 (Amendment)	Improving disclosures about financial instruments (i)
HKFRS 8	Operating segments (i)
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded derivatives (iii)

Notes to the Financial **Statements**

For the year ended 31 December 2008

2. Adoption of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

HK(IFRIC) - Int 13	Customer loyalty programmes (iv)
HK(IFRIC) - Int 15	Agreements for the construction of real estates (i)
HK(IFRIC) - Int 16	Hedges of a net investment in a foreign operation (v)
HK(IFRIC) - Int 17	Distributions of non-cash assets to owners (ii)
HK(IFRIC) - Int 18	Transfers of assets from customers (vi)
HKFRSs (Amendments)	Improvements to HKFRSs (vii)

(i) *Effective for annual periods beginning on or after 1 January 2009*

(ii) *Effective for annual periods beginning on or after 1 July 2009*

(iii) *Effective for annual periods ending on or after 30 June 2009*

(iv) *Effective for annual periods beginning on or after 1 July 2008*

(v) *Effective for annual periods beginning on or after 1 October 2008*

(vi) *Effective for transfers of assets from customers received on or after 1 July 2009*

(vii) *Effective for annual period beginning on or after 1 January 2009 except for the amendments HKFRS 5, effective for annual period beginning on or after 1 July 2009*

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

3. Principal Accounting Policies

(a) Statement of compliance

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 consolidated financial statements also comply with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

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.

(b) Basis of consolidation

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

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

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(b) Basis of consolidation *(Continued)*

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 combinations

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 fair 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 represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The goodwill is subsequently accounted for in accordance with the accounting policy set out in note 3(g) below.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(d) Subsidiaries

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

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

(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.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to profit or loss 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.

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(f) Property, plant and equipment and depreciation *(Continued)*

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

Leasehold improvements	shorter of 40% and the lease terms
Plant, machinery and equipment	10% - 15%
Furniture, fixtures and office equipment	10% - 20%
Computer hardware and software	20%

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

(g) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

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

(h) Impairment of 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 CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(h) Impairment of assets excluding goodwill *(Continued)*

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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, 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 CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, 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.

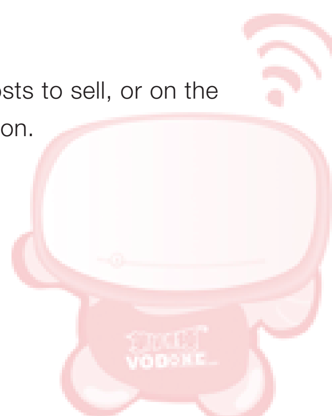
(i) Discontinued operations

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 area 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 the Financial Statements

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(j) 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. The Company's financial assets are classified as loans and receivables and are subsequently accounted for as follows:

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.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each balance sheet date. They are impaired where there is objective evidence that as a result of one or more events that occurred after their initial recognition, the estimated future cash flows of the investment have been impacted.

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.

Notes to the Financial Statements

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(j) Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

If any such evidence exists, 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 loans and receivables' original effective interest rate, where the effect of discounting is material. This assessment is made collectively where loans and receivables 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 loans and receivables 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 or loss. 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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of accounts 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 accounts and other receivables 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 profit or loss.

Effective interest method

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

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(j) Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows form 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.

(k) 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.

(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.

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(k) Financial liabilities and equity issued by the Group *(Continued)*

Classification as debt or equity *(Continued)*

(ii) Compound instruments (Continued)

Convertible notes that contain an equity component *(Continued)*

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 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, i.e. 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 proceed. The portion relating to the derivative component is recognised in profit or loss 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.

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(k) Financial liabilities and equity issued by the Group *(Continued)*

Classification as debt or equity *(Continued)*

(ii) Compound instruments (Continued)

Other convertible notes *(Continued)*

The derivative component is carried at fair value on the balance sheet with any changes in fair value being charged or credited to profit or loss in the period when the change occurs. 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.

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 amount of both components is recognised in profit or loss.

(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(j) 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 expire.

Notes to the Financial Statements

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(l) 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 profit or loss immediately.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivates 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.

(m) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, 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.

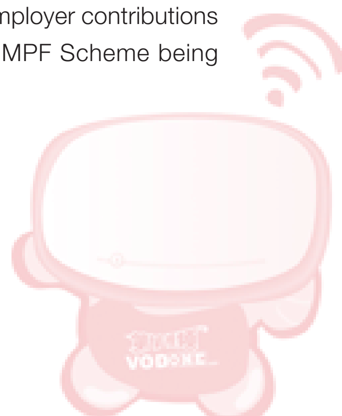
(n) Employees' benefits

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.

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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 profit or loss 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.



Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(n) Employees' benefits *(Continued)*

Retirement benefit costs *(Continued)*

The employees of the Group's subsidiaries in the PRC are members of central pension schemes operated by the local governments in the PRC and these subsidiaries make mandatory contributions to these central pension schemes to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentages of the employees' salary cost in accordance with the relevant regulations in the PRC, and are charged to profit or loss 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 profit or loss, 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 accumulated losses/retained profits).

(o) 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 the Financial Statements

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(o) 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 reporting date, to recover or settle the carrying amount of its assets and liabilities.

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(p) 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.

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

(q) 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 charge and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charge is charged directly to profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(q) Leases *(Continued)*

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.

(r) Foreign currency translation

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 ("HK$"), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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 profit or loss.

On consolidation, the balance sheets of subsidiaries denominated in foreign currencies are translated into HK$ at the applicable rates of exchange ruling at the balance sheet date while income and expenses items are translated at an average rate. The resulting translation differences are included in the exchange fluctuation reserve.

Goodwill arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(s) Borrowing costs

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

(t) 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.

(u) 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.

Notes to the Financial **Statements**

For the year ended 31 December 2008

3. Principal Accounting Policies *(Continued)*

(v) 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.

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.

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.

Notes to the Financial **Statements**

For the year ended 31 December 2008

4. Critical Accounting Estimates and Judgements *(Continued)*

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(g) above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.

(ii) Share option expense

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

(iii) Impairment of assets (excluding goodwill)

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

(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/loss recognised in profit or loss in respect of the derivative component of the convertible notes.

Notes to the Financial **Statements**

For the year ended 31 December 2008

5. Segment Information

(a) Business segments

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 2008, the Group's turnover and operating results were derived from tele-media service only in the PRC only. Accordingly, no business segments are presented.

During 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.

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

For the year ended 31 December 2008

5. Segment Information *(Continued)*

(a) Business segments *(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	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 expense	–	–	32,803

Notes to the Financial **Statements**

For the year ended 31 December 2008

5. Segment Information *(Continued)*

(b) Geographical segments

During 2008 and 2007, the Group's operations are situated in the PRC in which all of its revenue was derived. Accordingly, no geographical segments are presented.

6. Revenue and Other Income

Revenue, which is also 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 revenue and other income is as follows:

	2008 HK$'000	2007 HK$'000
FROM CONTINUING OPERATION		
Revenue		
Telecomedia service income in relation to:		
– Advertising services	**64,601**	27,872
– Telecom value-added services	**848**	21,476
– Programme production	**241**	3,857
– Others	**23**	4,631
Advertising income	**209**	564
	65,922	58,400
Other income		
Interest income	**5,655**	8,283
Others	**–**	113
	5,655	8,396
Total revenue and other income	**71,577**	66,796
FROM DISCONTINUED OPERATION		
Revenue		
Sales of medicine	**–**	6,426
Other income		
Interest income	**–**	8
Total revenue and other income	**–**	6,434

Notes to the Financial **Statements**

For the year ended 31 December 2008

7. Other Gains and Losses

	2008 HK$'000	2007 HK$'000
FROM CONTINUING OPERATION		
Fair value gain on derivative component of convertible notes (note 26)	**54,360**	42,413
Gain on repurchase of convertible notes (note 26)	**24,312**	–
Issuing cost allocated to derivative component of convertible notes	**–**	(9,630)
Net foreign exchange losses	**(3,777)**	(6,864)
Additional cost in relation to disposal of subsidiaries in 2007	**(5,000)**	–
Loss on disposal of property, plant and equipment	**–**	(8)
Loss on disposal of available-for-sale investment	**–**	(103)
	69,895	25,808
FROM DISCONTINUED OPERATION		
Loss on disposal of property, plant and equipment	**–**	(55)

8. Finance Costs

Finance costs comprise the followings:

	2008 HK$'000	2007 HK$'000
FROM CONTINUING OPERATION		
Imputed interest on convertible notes (note 26)	**29,972**	22,915
Finance lease charge	**2**	1
	29,974	22,916
FROM DISCONTINUED OPERATION		
Interest on other borrowing wholly repayable within five years	**–**	13

Notes to the Financial Statements

For the year ended 31 December 2008

9. Loss Before Income Tax

Loss before income tax is arrived at after charging:

	2008 **HK$'000**	2007 HK$'000
Staff costs (excluding directors' remuneration (note 10))		
Salaries and wages	**18,462**	8,692
Pension fund contributions	**3,428**	1,540
Share-based payment expense	**3,519**	22,307
	25,409	32,539
Cost of inventories sold	**–**	3,257
Provision for inventories	**–**	12
Amount of inventories recognised as expenses	**–**	3,269
Amortisation of Chinese medicine intellectual property and knowhow	**–**	3,268
Depreciation of property, plant and equipment	**8,881**	2,424
Allowance for doubtful debts	**–**	366
Auditors' remuneration	**630**	1,580
Production and programming costs (included in other operating expenses) (ii)	**24,747**	7,953

Notes:

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

ii) In October 2007, the Group's subsidiary, TMD2, signed a co-operation contract with an independent third party, whereby TMD2 would inject funds of up to RMB20,000,000 and the independent third party would 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 project were to be equally shared. 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-epidode TV series "Water margin".

During the year, the project was terminated. Pursuant to the co-operation contract, TMD2 shared the production and related costs less advertising income amounting to RMB6,714,000 (equivalent to HK$7,516,000) which was included in other operating expenses.

Notes to the Financial **Statements**

For the year ended 31 December 2008

10. Directors' Remuneration

	2008 HK$'000	2007 HK$'000
Directors' fees		
Executive Directors	**5,254**	1,800
Independent non-executive Directors	**400**	458
Basic remuneration, housing, other allowances and benefits in kind	**4,348**	11,258
Share-based payment expense	**970**	10,496
Pension fund contributions	**4**	38
	10,976	24,050

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

	Directors' fees HK$'000	**Remuneration, allowances and benefits in kind** HK$'000	**Share-based payment expense** HK$'000	**Pension fund contributions** HK$'000	**Total** HK$'000
2008					
Executive Directors					
Zhang Lijun	3,935	2,065	285	–	6,285
Wang Chun	1,319	1,681	285	–	3,285
Yue Hong Chu (ii)	–	375	229	3	607
Wu Fred Fong (i)	–	150	–	1	151
Lu Xing (i)	–	67	–	–	67
Yu Jianmeng (i)	–	10	–	–	10
Independent non-executive Directors					
Loke Yu, Alias Loke Hoi Lam	160	–	57	–	217
Wang Zhichen	120	–	57	–	177
Wang Linan	120	–	57	–	177
	5,654	4,348	970	4	10,976

Notes to the Financial **Statements**

For the year ended 31 December 2008

10. Directors' Remuneration *(Continued)*

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

(i) resigned on 31 January 2008
(ii) appointed on 6 October 2008
(iii) resigned on 15 March 2007
(iv) resigned on 1 April 2007
(v) retired on 28 May 2007
(vi) resigned on 7 June 2007

There were no arrangements under which a director waived or agreed to waive any remuneration for the year (2007: Nil). In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the year (2007: HK$1,138,000).

Notes to the Financial **Statements**

For the year ended 31 December 2008

11. Five Highest Paid Employees

The five highest paid employees in the Group during 2007 and 2008 included the directors, details of whose remuneration are set out in note 10 above.

12. Income Tax

(a) Taxation in the consolidated income statement represents Hong Kong profits tax charge under-provided in prior year. No provision for income tax has been 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 25%, 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 years 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:

	2008 HK$'000	2007 HK$'000
Profit/(loss) before income tax from		
– continuing operation	**(122,518)**	(74,058)
– discontinued operation	**–**	11,872
	(122,518)	(62,186)
Taxation calculated at PRC income tax of 25% (2007: 33%)	**(30,630)**	(20,521)
Tax effect of non-taxable income	**(13,724)**	(13,262)
Tax effect of expenses not deductible for taxation purposes	**9,675**	10,392
Deferred tax assets not recognised	**25,088**	13,123
Effect of tax rates in other jurisdictions	**9,588**	10,268
Others	**23**	–
Income tax for the year	**20**	–

Notes to the Financial **Statements**

For the year ended 31 December 2008

13. Discontinued Operation

In October 2007, the Group disposed of its entire 60% interest in Huayi Pharmaceutical Company Limited ("Huayi") at a consideration of RMB26,000,000 (equivalent to HK$27,778,400) to 中國藥材集團公司 (China National Group Corp. of Traditional and Herbal Medicine) ("China National Medicine").

The profit from the discontinued operation for 2007 is analysed as follows:

	2007 HK$'000
Revenue	6,426
Cost of revenue	(3,269)
Gross profit	3,157
Other income	8
Selling and distribution costs	(2,721)
Administrative expenses	(6,346)
Finance costs	(13)
Loss before income tax	(5,915)
Income tax	–
Loss for the year	(5,915)
Gain on disposal of a subsidiary	17,787
Profit for the year from discontinued operation	11,872
Attributable to:	
Equity holders of the Company	14,238
Minority interests	(2,366)
	11,872

Notes to the Financial **Statements**

For the year ended 31 December 2008

13. Discontinued Operations *(Continued)*

The net cash flows incurred by the discontinued operation for the year are as follows:

	2008 **HK$'000**	2007 HK$'000
Net cash outflows from		
Operating activities	**–**	(769)
Investing activities	**–**	(263)
Financing activities	**–**	–
	–	(1,032)

14. Loss for the Year Attributable to Equity Holders of the Company

Loss for the year attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of HK$17,106,000 (2007: a loss of HK$48,045,000) which has been dealt with in the financial statements of the Company.

15. Loss Per Share

(a) Basic loss per share

	2008 **HK cents**	2007 HK cents
Basic loss per share from:		
– continuing operation	**(7.1)**	(4.7)
– discontinued operation	**–**	0.9
Total loss per share	**(7.1)**	(3.8)

Notes to the Financial **Statements**

For the year ended 31 December 2008

15. Loss Per Share *(Continued)*

(a) Basic loss per share *(Continued)*

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	**2008** **HK$'000**	2007 HK$'000
Loss for the year attributable to equity holders of the Company	**(121,004)**	(59,680)
Less: Profit for the year from discontinued operation used in the calculation of basic loss per share from discontinued operation	**–**	(14,238)
Loss for the year used in calculation of basic loss per share from continuing operation	**(121,004)**	(73,918)

Number of shares	**2008**	2007
Issued ordinary shares at 1 January	**1,644,074,049**	1,390,756,673
Effect of shares issued on conversion of convertible notes	**–**	104,402,165
Effect of shares issued on repurchase of convertible notes	**43,819,881**	–
Effect of shares to be issued for repurchase of convertible notes	**11,975,620**	–
Effect of shares issued on exercise of share options	**572,131**	85,181,150
Weighted average number of ordinary shares for basic loss per share	**1,700,441,681**	1,580,339,988

Notes to the Financial **Statements**

For the year ended 31 December 2008

15. Loss Per Share *(Continued)*

(b) Diluted loss per share

For the year ended 31 December 2008

Diluted loss per share was not presented for the year ended 31 December 2008 as the share options outstanding at the year end had an anti-dilutive effect on the basic loss per share.

For the year ended 31 December 2007

Diluted loss per share for the year ended 31 December 2007 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the convertible notes (note 26) 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 continuing and discontinued operations HK$'000**	From continuing operation HK$'000
Loss for the year ended 31 December 2007 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 ended 31 December 2007 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

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 loss per share	1,628,559,166

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16. Property, Plant and Equipment

Group	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Furniture, fixture, computer hardware and software and office equipment HK$'000	Total HK$'000
Cost:					
At 1 January 2007	–	57	8,703	1,362	10,122
Disposal of a subsidiary	–	–	(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
Reclassifications	–	2,762	(4,069)	1,307	–
Additions	5,433	2,908	3,403	2,009	13,753
Exchange adjustments	80	208	771	131	1,190
At 31 December 2008	6,983	8,507	13,039	4,419	32,948
Accumulated depreciation:					
At 1 January 2007	–	–	2,814	660	3,474
Disposal of a subsidiary	–	–	(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
Reclassifications	–	377	(509)	132	–
Charge for the year	4,969	1,384	2,066	462	8,881
Exchange adjustments	65	41	96	10	212
At 31 December 2008	5,132	2,134	2,783	631	10,680
Carrying amount:					
At 31 December 2008	1,851	6,373	10,256	3,788	22,268
At 31 December 2007	1,372	2,297	11,804	945	16,418

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For the year ended 31 December 2008

16. Property, Plant and Equipment *(Continued)*

Company	Leasehold improvements HK$'000	Plant, machinery and equipment HK$'000	Furniture, fixture, and office equipment HK$'000	Total HK$'000
Cost:				
At 1 January 2007	–	–	–	–
Additions	1,470	830	56	2,356
At 31 December 2007	1,470	830	56	2,356
Reclassifications	–	(167)	167	–
Additions	–	–	34	34
At 31 December 2008	1,470	663	257	2,390
Accumulated depreciation:				
At 1 January 2007	–	–	–	–
Charge for the year	98	27	2	127
At 31 December 2007	98	27	2	127
Reclassifications	–	(5)	5	–
Charge for the year	588	133	50	771
At 31 December 2008	686	155	57	898
Carrying amount:				
At 31 December 2008	784	508	200	1,492
At 31 December 2007	1,372	803	54	2,229

At the balance sheet date, the carrying amount of the equipment held under finance leases of the Group and the Company was HK$31,000 (2007: HK$40,000). The related depreciation charge was HK$9,000 (2007: HK$1,000).

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For the year ended 31 December 2008

17. Interest in an Associate

	Group 2008 HK$'000	Group 2007 HK$'000
Share of net (liabilities)/assets	**(2,465)**	40
Goodwill	**54,909**	47,994
	52,444	48,034

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:

	2008 HK$'000	2007 HK$'000
Total assets	**1,103**	25,898
Total liabilities	**(6,135)**	(25,817)
	(5,032)	81
Group's share of associate's net (liabilities)/assets	**(2,465)**	40
Revenue	**65,527**	26,709
Loss for the year	**(4,922)**	(42)
Group's share of associate's loss for the year	**(2,412)**	(20)

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For the year ended 31 December 2008

18. Goodwill

	Group HK$'000
Cost:	
At 1 January 2007	309,766
Disposal of a subsidiary	(77,974)
At 31 December 2007	231,792
Exchange adjustments	33,396
At 31 December 2008	265,188
Accumulated impairment:	
At 1 January 2007	71,868
Disposal of a subsidiary	(71,868)
At 31 December 2007 and 2008	–
Carrying amount:	
At 31 December 2008	265,188
At 31 December 2007	231,792

Goodwill acquired in a business combination is allocated to the Group's cash-generating units ("CGUs") identified to country of operation and business segment. The carrying amount, as at 31 December 2008 was related to the Group's tele-media service business ("Tele-media CGU") in the PRC.

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.

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For the year ended 31 December 2008

18. Goodwill *(Continued)*

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 approved by management are those regarding the discount 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 was 16.23%. A marketability discount of 10% was adopted.

The recoverable amount of the Tele-media CGU is higher than its carrying amount with reference to the valuation. Accordingly, no impairment loss on goodwill is required.

19. Interests in Subsidiaries

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares/capital contributions, at cost	**442,521**	442,521
Due from subsidiaries	**618,741**	618,607
	1,061,262	1,061,128
Less: Provision for impairment	**(467,539)**	(467,539)
	593,723	593,589

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

The amounts due to subsidiaries are unsecured, interest-free and have no fixed repayment terms.

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For the year ended 31 December 2008

19. Interests in Subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries at 31 December 2008 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held directly by the Company		Principal activities
			Direct	Indirect	
Clear Concept International Limited ("Clear Concept")	British Virgin Islands ("BVI")	US$200	51%	–	Investment holding
VODone Holdings Limited (formerly known as Bentex (Hong Kong) Limited)	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 (VODone Information Engineering Co., Ltd) ("TMD2") (i)	People's Republic of China ("PRC")	RMB160,500,000	99.69%	–	Provision of technical, promotional and advertising services
北京日升升國際廣告有限公司 (Beijing Adpeople International Advertising 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	RMB20,600,000	97.09%	–	Provision of entertainment production services

(i) These companies are foreign investment enterprises established in the PRC.

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For the year ended 31 December 2008

20. Other Receivable

The balance represents a refundable deposit 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 in 2008. The balance is repayable by October 2010.

21. Accounts Receivable

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within 1 month	**–**	3,205
2 to 3 months	**–**	14
4 to 6 months	**–**	1,410
7 to 12 months	**–**	–
Over 1 year	**148**	–
	148	4,629

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

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

	2008	2007
	HK$'000	HK$'000
At beginning of year	**–**	22,230
Impairment loss recognised	**–**	366
Disposal of a subsidiary	**–**	(22,596)
At end of year	**–**	–

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For the year ended 31 December 2008

21. Accounts Receivable *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Neither past due nor impaired	**–**	3,205
Less than 1 month past due	**–**	13
1 to 3 months past due	**–**	1,411
More than 3 months past due	**148**	–
	148	4,629

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.

22. Other Receivables, Deposits and Prepayments

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Other receivables	**895**	28,126	**89**	–
Deposits	**3,309**	14,010	**2,789**	2,789
Prepayments (i)	**36,719**	55,512	**–**	38
	40,923	97,648	**2,878**	2,827

(i) Included in prepayments as at 31 December 2008 were prepaid promotion, advertising and agency fees of HK$35,147,000 (2007: HK$51,157,000).

23. Bank Balances and Cash

As of 31 December 2008, 10% (2007: 2%) of the bank balances of the Group was denominated in Renminbi.

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC Government.

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24. Other Payables and Accruals

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Payables for repurchase of convertible notes (i)	**57,200**	–	**57,200**	–
Other payables	**6,567**	13,973	**5,034**	11,957
Accruals	**1,180**	922	**–**	–
	64,947	14,895	**62,234**	11,957

Note:

(i) The balance represents the cash consideration payable on repurchase of convertible notes in June 2008. Details of repurchase of convertible notes are disclosed in note 26(b). The balance was subsequently paid on 25 March 2009.

25. Obligations Under Finance Leases

At 31 December 2008, the Group and the Company had obligations under finance leases repayable as follows:

	Group and Company			
	Minimum lease payments		Present value of minimum lease prepayment	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**11**	11	**8**	8
In the second to fifth year inclusive	**30**	41	**23**	32
	41	52		
Less: Future finance charge	**(10)**	(12)		
Present value of lease obligations	**31**	40	**31**	40

It is the Group's policy to lease certain of its equipment under finance leases. 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 finance lease are secured by the lessor's title to the leased assets.

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For the year ended 31 December 2008

26. Convertible Notes

The movement of the liability and derivative components of the convertible notes during the year is set out below:

	Derivative component HK$'000	Liability component HK$'000	Total HK$'000
At 1 January 2007	–	51,027	51,027
Converted to ordinary shares	–	(51,027)	(51,027)
Issue of convertible notes (a)	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 (b)	(671)	(328,775)	(329,446)
At 31 December 2008	–	–	–

(a) 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 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).

Notes to the Financial Statements

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26. Convertible Notes *(Continued)*

(a) *(Continued)*

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.

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

(b) 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) at their full face value by cash 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) into ordinary shares at HK$1.30 per share.

On 30 June 2008, the Company completed the repurchase of above convertible notes in which the Company paid HK$209,300,000 and issued 86,692,306 new ordinary shares to the Noteholders.

In June 2008, the Company invited the remaining holder holding the principal amount of HK$88,000,000 to consider the terms of repurchase, but the remaining holder had not responded to such invitation until December 2008. Under the same terms of the Note Repurchase Agreements and Supplemental Agreements, the Company would repurchase 65% of the remaining convertible notes in total principal amount of HK$57,200,000 by cash and issue 23,692,308 new ordinary shares for conversion of 35% of the remaining convertible notes into ordinary shares at HK$1.30 per share.

The total consideration on repurchase of convertible notes was HK$305,134,000, comprising cash consideration of HK$266,500,000 and fair value HK$38,634,000 of shares issued or to be issued at the completion date. The difference of HK$24,312,000 between the total consideration and the carrying value of convertible notes is recognised as 'Gain on repurchase of convertible notes' included in other gains and losses.

Notes to the Financial **Statements**

For the year ended 31 December 2008

27. Other Borrowing

The other borrowing at 31 December 2008 was unsecured, interest free and had no fixed term of repayment.

28. 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	
	2008	2007
	HK$'000	HK$'000
Tax losses	**28,863**	23,604

Out of the tax losses of the Group as at 31 December 2008, HK$155,960,000 (2007: HK$27,209,000) has an expiry period of five years since 2007.

29. Share Capital

	2008	2007
	HK$'000	**HK$**'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
1,731,366,355 (2007: 1,644,074,049) ordinary shares of HK$0.01 each	**17,314**	16,441

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For the year ended 31 December 2008

29. Share Capital *(Continued)*

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

	Number of ordinary shares	Share capital HK$'000
At 1 January 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 (i)	86,692,306	867
Shares issued on exercise of share options (ii)	600,000	6
At 31 December 2008	1,731,366,355	17,314

Notes:

(i) During the year, the Company agreed to issue 110,384,614 new ordinary shares as partial consideration for repurchase of convertible notes of HK$410,000,000. On June 2008, the Company issued 86,692,306 ordinary shares to part of note holders for settlement of repurchase. The remaining 23,692,308 ordinary shares will be issued subsequent to the year end. Details of repurchase of convertible notes are disclosed in note 26(b).

The fair values of the shares issued and to be issued are HK$30,342,000 and HK$8,292,000 respectively, which are determined based on the market price of shares at the completion date of repurchase. In respect of the shares issued during the year, HK$867,000 was credited to share capital and the balance of HK$29,475,000 was credited to the share premium account. The fair value HK$8,292,000 of the shares to be issued was credited to the shares to be issued account included in the equity.

(ii) During the year, certain options were exercised to subscribe for 600,000 ordinary shares in the Company at consideration of HK$769,000 of which HK$6,000 was credited to share capital and the balance of HK$763,000 was credited to the share premium account. HK$142,000 has been transferred from the share-based compensation reserve to the share premium account in accordance with accounting policy set out in note 3(n).

30. Shares to be Issued

The amount represents the fair value of 23,692,308 ordinary shares to be issued under the repurchase of convertible notes (note 26(b)). On 17 April 2009, the respective ordinary shares were issued to the holders of convertible notes and the amount was converted into share capital and share premium.

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31. Reserves

Company

	Share Premium HK$'000	Contributed surplus HK$'000 (Note (a))	Convertible note reserve HK$'000	Share-based compensation reserve HK$'000 (Note (b))	Accumulated losses HK$'000	Total reserves HK$'000
Balance at 1 January 2007	547,052	76,838	16,492	20,076	(242,720)	417,738
Loss for the year	–	–	–	–	(48,045)	(48,045)
Shares issued on conversion of consideration convertible notes	66,467	–	(16,492)	–	–	49,975
Shares issued on exercise of share option	224,847	–	–	(31,971)	–	192,876
Recognition of share-based payment expense	–	–	–	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**
Profit for the year	–	–	–	–	17,106	17,106
Shares issued and to be issued on repurchase of convertible notes (note *29*(i))	29,475	–	–	–	–	29,475
Shares issued on exercise of share option (note *29*(ii))	905	–	–	(142)	–	763
Recognition of share-based payment expense	–	–	–	4,489	–	4,489
Balance at 31 December 2008	**868,746**	**76,838**	**–**	**22,170**	**(270,574)**	**697,180**

Nature and purpose of reserves

(a) 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.

(b) Share-based compensation reserve comprises the value of the unexercised share options granted by the Company recognised in accordance with the accounting policy adopted for share-based payment expense in note 3(n).

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32. Operating Lease Arrangements

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Minimum lease payments paid under operating leases during the year	**6,774**	7,838	**2,828**	2,451

At 31 December 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**4,879**	6,433	**2,471**	2,471
In the second to fifth years, inclusive	**4,836**	3,356	**824**	3,295
	9,715	9,789	**3,295**	5,766

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

33. Commitments

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for:		
– Acquisition of property, plant and equipment	**5,451**	5,950
– Casting Poll show	**–**	9,917

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34. 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.

The terms and conditions of the grants and movements in the number of share options under the Scheme during the year were as follows:

	At beginning of year	Granted during the year	Exercised during the year	Reclassification*	At end of year	Exercise price	Exerciseable period
Options granted to directors							
– on 1 August 2006	3,600,000	–	–	–	3,600,000	HK$0.85	01/08/2006 to 31/07/2009
– on 26 March 2007	16,200,000	–	–	(2,600,000)	13,600,000	HK$1.83	26/03/2007 to 25/03/2010
– on 17 August 2007	500,000	–	–	(500,000)	–	HK$1.87	17/08/2007 to 16/08/2010
– on 6 November 2008 (ii)	–	14,000,000	–	–	14,000,000	HK$0.116	06/11/2008 to 05/11/2011
	20,300,000	14,000,000	–	(3,100,000)	31,200,000		
Options granted to independent non-executive directors							
– on 26 March 2007	605,000	–	–	–	605,000	HK$1.83	26/03/2007 to 25/03/2010
– on 6 November 2008 (ii)	–	3,000,000	–	–	3,000,000	HK$0.116	06/11/2008 to 05/11/2011
	605,000	3,000,000	–	–	3,605,000		
Options granted to employees/others							
– on 1 August 2006	400,000	–	–	–	400,000	HK$0.85	01/08/2006 to 31/07/2009
– on 8 November 2006	4,380,000	–	(300,000)	–	4,080,000	HK$0.73	08/11/2006 to 07/11/2009
– on 26 March 2007	63,340,000	–	(300,000)	2,600,000	65,640,000	HK$1.83	26/03/2007 to 25/03/2010
– on 17 August 2007	–	–	–	500,000	500,000	HK$1.87	17/08/2007 to 16/08/2010
– on 31 October 2008 (i)	–	66,300,000	–	–	66,300,000	HK$0.10	31/10/2008 to 30/10/2011
– on 6 November 2008 (ii)	–	5,000,000	–	–	5,000,000	HK$0.116	06/11/2008 to 05/11/2011
– on 4 December 2008 (iii)	–	2,400,000	–	–	2,400,000	HK$0.127	04/12/2008 to 03/12/2011
	68,120,000	73,700,000	(600,000)	3,100,000	144,320,000		
Total	89,025,000	90,700,000	(600,000)	–	179,125,000		

* Two of the directors was resigned during the year and the share options they held were reclassified as options granted to others.

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34. Share-based Payment Transactions *(Continued)*

Equity-settled share option scheme of the Company *(Continued)*

(i) On 31 October 2008, a total of 66,300,000 shares options were granted to 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$0.1 per share. The options maybe exercisable during the period from 31 October 2008 to 30 October 2011.

(ii) On 6 November 2008, a total of 22,000,000 share options were granted to directors of the Group and eligible participants. The options were granted at a cash consideration of HK$1 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$0.116 per share. The options may be exercisable during the period from 6 November 2008 to 5 November 2011.

(iii) On 4 December 2008, a total of 2,400,000 share options were granted to 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$0.127 per share. The options may be exercisable during the period from 4 December 2008 to 3 December 2011.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Black-Scholes model. The contractual life of the share options and expectations of early exercise are incorporated into the model.

Fair value of share options granted during the year and their assumptions are as follows:

	Granted on 31 October	Granted on 6 November	Granted on 4 December
Fair value at measurement date	HK$0.0468	HK$0.0577	HK$0.0717
Share price at the date of offer of grant	HK$0.0970	HK$0.1160	HK$0.1260
Exercise price	HK$0.1000	HK$0.1160	HK$0.1270
Expected volatility	112.83%	115.14%	114.53%
Expected life	1.5 year	1.5 year	1.5 year
Expected dividends	0%	0%	0%
Risk-free interest rate	1.258%	1.270%	1.219%

The fair value of the share options granted during the year was HK$4,489,000 (2007: HK$32,803,000), all of which was recognised an equity-settled share-based payment expenses during the year.

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35. 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 year:

	Note	**2008** **HK$'000**	2007 HK$'000
Service fee income earned from an associate, TMD 1	(i)	**65,476**	53,148
Director's quarter expenses paid to Sunview	(ii)	**–**	180
Sharing of the office services paid to WorldVest	(iii)	**–**	43
Purchase of raw material/herbs from China National Medicine	(iv)	**–**	852
Rental expenses paid to Beijing Huamiao	(iv)	**–**	471

Notes to the Financial Statements

For the year ended 31 December 2008

35. Related Party Transactions *(Continued)*

(a) *(Continued)*

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

(ii) 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.

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

(iv) 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 member of key management during the year was as follows:

	2008 **HK$'000**	2007 HK$'000
Short term benefits	**10,006**	12,366
Termination benefits	**–**	1,188
Share-based payment expense	**970**	10,496
	10,976	24,050

(c) The amount due from a related company is interest free, unsecured and repayable on demand.

(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 2008 was fully settled in February 2009.

Notes to the Financial Statements

For the year ended 31 December 2008

36. 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 leases and other borrowing as disclosed in notes 26, 25 and 27 respectively less cash and cash equivalents. Capital comprises all components of equity.

The net debt-to-total capital ratio at 31 December 2007 and 2008 was as follows:

	2008 **HK$'000**	2007 HK$'000
Obligations under finance leases	**31**	40
Convertible notes	**–**	359,614
Other borrowing	**1,414**	1,414
	1,445	361,068
Less: Cash and cash equivalents	**(249,846)**	(553,601)
Net debt	**(248,401)**	(192,533)
Capital	**615,803**	639,596
Net debt-to-capital ratio	**N/A**	N/A

37. 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 customer's 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 customers. 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 92% (2007: 62%) and 100% (2007: 100%) 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 2008 have been settled in February 2009.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set up in note 21.

Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements 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.

Notes to the Financial **Statements**

For the year ended 31 December 2008

37. Financial Instruments *(Continued)*

Liquidity risk *(Continued)*

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
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008					
Other payables and accruals	**64,947**	**64,947**	**64,947**	**–**	**–**
Obligations under finance leases	**31**	**41**	**11**	**11**	**19**
Other borrowing	**1,414**	**1,414**	**1,414**	**–**	**–**
	66,392	**66,402**	**66,372**	**11**	**19**

Company	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
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008					
Other payables and accruals	**62,234**	**62,234**	**62,234**	**–**	**–**
Obligations under finance leases	**31**	**41**	**11**	**11**	**19**
Amount due to a subsidiary	**22,890**	**22,890**	**22,890**	**–**	**–**
	85,155	**85,165**	**85,135**	**11**	**19**

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
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007					
Other payables and accruals	14,895	14,895	14,895	–	–
Obligations under finance leases	40	52	11	11	30
Convertible notes	359,614	422,300	6,150	416,150	–
Other borrowing	1,414	1,414	1,414	–	–
	375,963	438,661	22,470	416,161	30

Notes to the Financial **Statements**

For the year ended 31 December 2008

37. 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
2007					
Other payables and accruals	11,957	11,957	11,957	–	–
Obligations under finance leases	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	–	–
	372,759	435,457	19,266	416,161	30

Interest rate risk

The Group's interest bearing financial liabilities are fixed rate borrowings, comprising convertible notes and obligations from finance leases, thus exposing the Group to fair value interest rate risk. The interest rates and terms of repayment of the convertible notes and obligations from finance leases are disclosed in note 26 and 25 respectively 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 authorised 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.

Notes to the Financial **Statements**

For the year ended 31 December 2008

38. 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 2008 and 2007 may be categorised as follows:

	2008 **HK$'000**	2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**294,744**	653,974
Financial liabilities		
Financial liabilities measured at amortised cost	**65,181**	319,970
Derivative component of convertible notes at fair value	**–**	55,031
	65,181	375,001

39. Comparative Figures

Certain of the comparative figures have been reclassified to confirm to the presentation of current year. The Group previously disclosed production and programming costs of HK$7,953,000 within 'cost of revenue'. Management believes that their inclusion in 'other operating expenses' is a fairer presentation of the Group's activities.

40. Approval of The Financial Statements

The financial statements were reviewed by the Audit Committee and approved and authorised for issue by the board of Directors on 20 April 2009.

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				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
Turnover					
Continuing operations	**65,922**	58,400	7,256	–	–
Discontinued operations	**–**	6,426	11,346	18,007	20,863
	65,922	64,826	18,602	18,007	20,863
Profit/(loss) before tax					
Continuing operations	**(122,538)**	(74,058)	(71,053)	(22,815)	(18,645)
Discontinued operations	**–**	11,872	(42,074)	(47,333)	(84,994)
	(122,538)	(62,186)	(113,127)	(70,148)	(103,639)
Tax – Discontinued operations	**–**	–	–	–	–
loss for the year	**(122,538)**	(62,186)	(113,127)	(70,148)	(103,639)
Attributable to:					
equity holders of the Company	**(121,004)**	(59,680)	(110,274)	(67,595)	(74,328)
Minority interests	**(1,534)**	(2,506)	(2,853)	(2,553)	(29,311)
	(122,538)	(62,186)	(113,127)	(70,148)	(103,639)

Five Year Financial **Summary**

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**370,248**	325,659	315,616	69,928	115,056
Current assets	**311,968**	690,470	222,784	16,214	16,335
Current liabilities	**(66,390)**	(16,887)	(121,261)	(58,658)	(57,422)
Net current assets/(liabilities)	**245,578**	673,583	101,523	(42,444)	(41,087)
Non-current liabilities	**(23)**	(359,646)	(2,115)	(2,048)	(1,991)
Net assets	**615,803**	639,596	415,024	25,436	71,978