VODONE LIMITED
(第一視頻集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock code: 82)

2007 FINAL RESULTS ANNOUNCEMENT

The directors of Vodone Limited (the "Company") announce that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 December

	Notes	**2007** **HK$'000**	2006 HK$'000
CONTINUING OPERATION			
Turnover	2	**58,400**	7,256
Cost of sales		**(39,759)**	(8,664)
Gross profit		**18,641**	(1,408)
Other revenue		**8,396**	142
Other gains and losses	3	**25,808**	(4)
Selling and distribution costs		**(17,580)**	–
Administrative expenses		**(86,387)**	(68,197)
Finance costs	4	**(22,916)**	(1,587)
Share of results of an associate		**(20)**	1
LOSS BEFORE TAX	5	**(74,058)**	(71,053)
Income tax	6	**–**	–
LOSS FOR THE YEAR FROM CONTINUING OPERATION		**(74,058)**	(71,053)
DISCONTINUED OPERATION			
Profit/(loss) for the year from discontinued operation	7	**11,872**	(42,074)
LOSS FOR THE YEAR		**(62,186)**	(113,127)
ATTRIBUTABLE TO:			
Equity holders of the Company		**(59,680)**	(110,274)
Minority interests		**(2,506)**	(2,853)
		(62,186)	(113,127)
LOSS PER SHARE	8		
Basic (HK cents)			
– from continuing and discontinued operations		**(3.8 cents)**	(13.6 cents)
– from continuing operation		**(4.7 cents)**	(9.0 cents)

* *For identification purposes only*

CONSOLIDATED BALANCE SHEET
31 December

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**16,418**	6,648
Intangible assets		**–**	22,920
Available-for-sale investment		**–**	99
Interest in an associate		**48,034**	48,051
Goodwill		**231,792**	237,898
		296,244	315,616
CURRENT ASSETS			
Inventories		**–**	7,434
Accounts receivable	*10*	**4,629**	1,656
Other receivables, prepayments and deposits		**127,063**	2,600
Amount due from an associate		**25,483**	4,773
Amount due from a related company		**9,109**	1
Bank balances and cash		**553,601**	206,320
		719,885	222,784
CURRENT LIABILITIES			
Accounts payable	*11*	**–**	5,474
Other payables and accruals		**14,895**	51,430
Deposits received		**570**	11,182
Amount due to a related company		**–**	734
Obligations under finance lease		**8**	–
Convertible note		**–**	51,027
Other borrowings		**1,414**	1,414
		16,887	121,261
NET CURRENT ASSETS		**702,998**	101,523
TOTAL ASSETS LESS CURRENT LIABILITIES		**999,242**	417,139
NON-CURRENT LIABILITIES			
Obligations under finance lease		**32**	–
Convertible notes	*12*	**359,614**	–
Other borrowings		**–**	2,115
		359,646	2,115
NET ASSETS		**639,596**	415,024
EQUITY			
Share capital		**16,441**	13,908
Reserves		**598,588**	371,321
		615,029	385,229
Minority interests		**24,567**	29,795
TOTAL EQUITY		**639,596**	415,024

NOTES

1. BASIS OF PREPARATION

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

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

Adoption of new and revised Hong Kong financial reporting standards

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

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

At the date of approval of these financial statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Concellations	1 January 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) – Int 12	Service Concession Arrangements	1 January 2008
HK(IFRIC) – Int 13	Customer Loyalty Programmes	1 July 2008
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

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

2. SEGMENT INFORMATION

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

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

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

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

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

For the year ended 31 December 2007

	Continuing operation	**Discontinued operation**	
	Tele–media service *HK$'000*	**Manufacturing, trading and contracting of Chinese Medicine products** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue:			
Turnover	58,400	6,426	64,826
Segment results	(25,668)	11,872	(13,796)
Unallocated corporate expenses			(58,237)
Loss from operating activities			(72,033)
Finance costs			(22,916)
Fair value gain on derivative component of convertible notes			42,413
Issuing cost allocated to derivative component			(9,630)
Share of results of an associate	(20)		(20)
Loss before minority interests			(62,186)
BALANCE SHEET:			
Assets:			
Segment assets	546,752	–	546,752
Unallocated corporate assets			469,377
Consolidated total assets			1,016,129
Liabilities:			
Segment liabilities	2,926	–	2,926
Unallocated corporate liabilities			373,607
Consolidated total liabilities			376,533
OTHER INFORMATION:			
Allowance for doubtful debts	–	366	366
Capital expenditure	14,307	277	14,584
Unallocated capital expenditure			2,356
			16,940
Depreciation	1,335	962	2,297
Unallocated depreciation			127
			2,424
Amortisation of intangible assets	–	3,268	3,268
Imputed interest on convertible notes	–	–	22,915
Share-based payment expenses	–	–	32,803

For the year ended 31 December 2006

	Continuing operation	Discontinued operation	
	Tele–media service	**Manufacturing, trading and contracting of Chinese Medicine products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue:			
Turnover	7,256	11,346	18,602
Segment results	(6,158)	(42,074)	(48,232)
Unallocated corporate expenses			(63,309)
Loss from operating activities			(111,541)
Finance costs			(1,587)
Share of results of an associate	1	–	1
Loss before minority interests			(113,127)
BALANCE SHEET:			
Assets:			
Segment assets	288,170	46,766	334,936
Unallocated corporate assets			203,464
Consolidated total assets			538,400
Liabilities:			
Segment liabilities	1,102	29,091	30,193
Unallocated corporate liabilities			93,183
Consolidated total liabilities			123,376
OTHER INFORMATION:			
Allowance for doubtful debts	–	63	63
Capital expenditure	1,136	120	1,256
Depreciation	9	1,434	1,443
Amortisation of intangible assets	–	4,236	4,236
Impairment of goodwill	–	30,918	30,918
Imputed interest on convertible notes	–	–	1,201
Share-based payment expenses	–	–	19,502

3. OTHER GAINS AND LOSSES

	2007	2006
	HK$'000	*HK$'000*
FROM CONTINUING OPERATION		
Fair value gain on derivative component of convertible notes *(note 12)*	**42,413**	–
Issuing cost allocated to derivative component of convertible notes *(note 12)*	**(9,630)**	–
Net foreign exchange loss	**(6,864)**	(4)
Loss on disposal of property, plant and equipment	**(8)**	–
Loss on disposal of available-for-sale investment	**(103)**	–
	25,808	(4)
FROM DISCONTINUED OPERATION		
Loss on disposal of property, plant and equipment	**(55)**	(8)
	(55)	(8)

4. FINANCE COSTS

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

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

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

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

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

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

6. INCOME TAX

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

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

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

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

(c) New tax law of the PRC

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

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

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

7. DISCONTINUED OPERATION

On 22 June and 14 September 2007, the Company's indirect 94% subsidiary, Star Wisdom Investments Limited ("Star Wisdom") entered into an agreement and a supplemental agreement with 中國藥材集團公司 (China National Group Corp. of Traditional and Herbal Medicine) ("China National Medicine") whereby Star Wisdom agreed to sell and China National Medicine agreed to purchase Star Wisdom's entire 60% interest in Huayi Pharmaceutical Company Limited ("Huayi") at a consideration of RMB26,000,000 (approximately HK$27,778,400). Huayi was owned as to 60% by Star Wisdom and 40% by 華和藥業股份有限公司 ("Huahe"), a subsidiary of China National Medicine. Accordingly, as disclosed in the Company's circular dated 28 September 2007, the disposal is considered a connected transaction. The disposal was completed in October 2007.

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

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

8. LOSS PER SHARE

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

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

Losses

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

Number of shares

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

Diluted loss per share amounts for the years ended 31 December 2007 and 2006 have not been shown as the share options outstanding during both years had an anti–dilutive effect on the basic loss per share for both years.

9. DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 December 2007 (2006: Nil).

10. ACCOUNTS RECEIVABLE

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

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

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

11. ACCOUNTS PAYABLE

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

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

12. CONVERTIBLE NOTES

On 9 July 2007, the Company entered into Note Subscription Agreements with six independent third parties in relation to the subscription of the convertible notes with an aggregate principal amount of HK$410,000,000 (the "Notes"). The Notes carry a couple interest rate of 1.5% per annum and will mature on the second anniversary from the date of issue (the "Maturity Date"). The Notes are convertible into shares of the Company with a par value of HK$0.01 at the initial conversion price is 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 shares for each day during the 20 consecutive trading days immediately prior to 30 days before each of the date falling on the 6th month, the 12th month and the 18th month anniversaries respectively from the issue date of the notes (each being a "Reset Date") is less than the Conversion Price then in effect, the Conversion Price of the Notes shall be automatically adjusted downwards to such 20-day average price on the Reset Day, provided that any such Conversion Price in no event shall be less than 85% of the initial Conversion Price (subject to the similar usual applicable anti- dilution adjustments in respect of the Conversion Price).

If, at any time prior to the Maturity Date, the closing price of the Company's 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 subscription of the convertible notes was completed on 23 July 2007. 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.

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

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

If the 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 Notes are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in the profit and loss account.

	Derivative component *HK$'000*	**Liability component** *HK$'000*	**Total** *HK$'000*
Issue of convertible notes	97,444	312,556	410,000
Issuing cost	–	(30,888)	(30,888)
Imputed interest	–	22,915	22,915
Change in fair value	(42,413)	–	(42,413)
At 31 December 2007	55,031	304,583	359,614

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

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

As the Binomial Model requires the input of highly subjective assumptions including the volatility of share price, change in subject input assumptions can materially affect the fair value estimate.

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

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

13. POST BALANCE SHEET EVENT

On 7 January 2008, 300,000 new ordinary shares of HK$0.01 were issued on exercise of share options by one eligible participant. The exercise price was HK$1.83 per share. Proceeds from issue of share of HK$549,000 were received prior to the balance sheet date.

REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the Audit Committee of the Company and approved and authorised for issue by the board of directors on 18 April 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating results and dividend

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

Operation review

Tele-media service business – Current business

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

VODone BUS

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

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

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

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

VODone LIVE

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

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

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

Olympic BIMC

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

Water Margin

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

The benefits of this business are as follows:

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

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

The Chinese Pharmaceutical business – Old business

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

FINANCIAL REVIEW

Chinese Pharmaceutical business

Following the management's decision, the 60% interest of the Chinese Pharmaceutical business (Huayi), representing its entire interest owned by Star Wisdom Investment Limited (an indirect 94% subsidiary of the Company) was disposed of for a sum of RMB26,000,000 on 22 June 2007.

Tele-media service business

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

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

Liquidity and Financial Resources

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

As referred to in Note 12 to the financial information, if the Notes have not been converted, they will be redeemed by the Company at the end of the maturity date at par in July 2009. The Notes also provide that the Company or any of its subsidiaries may at any time and from time to time purchase the Notes at any price as may be agreed between the Company or such subsidiary and the relevant noteholder.

The exercise of share options by eligible participants of Group's share option scheme also contributed extra liquidity to the Group. On 8 March 2007, a total of 151,435,000 share options were granted to directors of the Group and eligible participants. The options were granted at a cash consideration of HK$1 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$1.83 per share. The options may be exercisable during the period from 26 March 2007 and 25 March 2010. During the year, 71,290,000 of these share options were exercised. On 17 August 2007, a total of 11,455,000 share options were granted to directors of the Group and eligible participants. The options were granted at a cash consideration of HK$1 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$1.87 per share. The options may be exercisable during the period from 17 August 2007 and 16 August 2010. During the year, 1,000,000 of these share options were exercised and 9,955,000 share options were cancelled.

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

Capital Structure

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

In 2007, the Group substantially expanded its capital base, mainly due to the issuance of convertible notes in July to raise a sum of HKD410,000,000. Its main purpose was to fund for the expansion and development of the Group's tele-media business in the PRC.

PROSPECTS

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

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

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

The Company had complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except for deviation of the code provision A.2.1 of the Code as mentioned below.

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.

PUBLICATION OF FINAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the detailed information regarding the final results of the Group for the year ended 31 December 2007 required by paragraph 45(1) to 45(8) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
VODONE LIMITED
Wang Chun
Executive Director

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

Hong Kong, 18 April 2008