VODATEL

VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

BUSINESS AND FINANCIAL HIGHLIGHTS FOR THE YEAR

- Market prospects of Macao remained strong with revenue of HK$203,547,000, representing 62.05% of total revenue, generated by the Group during the Year
- Total revenue of the Group for the Year amounted to HK$328,061,000, or a decrease of 13.61% over the year ended 31st December, 2006
- Attributed to the contracts awarded involving after-sales support services and sale of CNMS by TSTSH and reversal of impairment of inventories, gross profit margin improved from 14.58% to 21.18%
- After three consecutive loss-making years, the Group reported operating profit of HK$3,864,000 and profit from continuing operations of HK$18,096,000
- The Group continued to be selected as provider of solutions for different gaming and hotel operators and for the Government of Macao
- TSTSH successfully worked out a new business model with a telecommunications service provider that will expand the application of its CNMS from telecommunications service providers to large enterprises
- Made a complete exit from TCM
- Received dividend income of HK$2,735,000 from TTSA
- The Board does not recommend payment of a final dividend for the Year

RESULTS

The Board is pleased to present the audited consolidated results of the Group for the Year as follows:

Consolidated Balance Sheet

	Note	As at 31st December, 2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Freehold land		**—**	2,020
Property, plant and equipment		**1,358**	3,056
Investment in an associate		**572**	445
Available-for-sale financial assets		**25,967**	15,502
		27,897	21,023
Current assets			
Inventories		**25,062**	16,145
Income tax prepaid		**1,034**	936
Trade and bills receivables	2	**126,822**	171,961
Other receivables, deposits and prepayments		**19,354**	26,228
Loaned asset		**—**	38,748
Pledged bank deposits		**8,475**	—
Cash and cash equivalents		**64,429**	107,928
		245,176	361,946
Non-current assets held for sale		**5,356**	22,856
		250,532	384,802
Current liabilities			
Trade and bills payables	3	**89,839**	165,151
Other payables and accruals		**42,963**	56,194
Current income tax liabilities		**32,958**	45,043
Borrowings		**—**	35,527
		165,760	301,915
Liabilities directly associated with non-current assets classified as held for sale		**1,215**	64,390
		166,975	366,305
Net current assets		**83,557**	18,497
Total assets less current liabilities		**111,454**	39,520

	Note	As at 31st December, 2007 HK$'000	2006 HK$'000
Financed by:			
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**61,382**	159,058
Other reserves	11	**136,718**	24,348
Accumulated losses	11	**(93,377)**	(149,442)
		104,723	33,964
Minority interest in equity		**6,731**	5,556
Total equity		**111,454**	39,520

Consolidated Income Statement

	Note	Year ended 31st December, 2007 HK$'000	2006 HK$'000 (restated)
Continuing operations			
Revenue	4	**328,061**	379,751
Cost of sales	6	**(258,592)**	(324,371)
Gross profit		**69,469**	55,380
Selling and marketing costs	6	**(6,843)**	(7,594)
Administrative expenses	6	**(61,933)**	(68,669)
Other gains/(losses) - net		**3,171**	(440)
Operating profit/(loss)		**3,864**	(21,323)
Impairment of goodwill		**—**	(837)
Finance income	7	**4,497**	2,679
Finance costs	7	**(9)**	(1,217)
Finance income - net	7	**4,488**	1,462
Share of profit/(loss) of an associate		**127**	(257)
Profit/(loss) before income tax		**8,479**	(20,955)
Income tax credit	8	**9,617**	8,322
Profit/(loss) for the Year from continuing operations		**18,096**	(12,633)
Discontinued operations			
Profit/(loss) for the Year from discontinued operations	12	**39,210**	(73,025)
Profit/(loss) for the Year		**57,306**	(85,658)
Attributable to:			
Equity holders of the Company		**56,065**	(84,094)
Minority interest		**1,241**	(1,564)
		57,306	(85,658)

	Note	2007	2006 (restated)
Earnings/(loss) per Share for profit/(loss) from continuing operations attributable to the equity holders of the Company during the Year (expressed in HK cents per Share)			
- basic	9	**2.74**	(1.80)
- diluted	9	**Not applicable**	Not applicable
Earnings/(loss) per Share for profit/(loss) from discontinued operations attributable to the equity holders of the Company during the Year (expressed in HK cents per Share)			
- basic	9	**6.39**	(11.90)
- diluted	9	**Not applicable**	Not applicable
Earnings/(loss) per Share for profit/(loss) attributable to the equity holders of the Company during the Year (expressed in HK cents per Share)			
- basic	9	**9.13**	(13.70)
- diluted	9	**Not applicable**	Not applicable
Dividends	10	**—**	—

The audited consolidated results of the Group for the Year were reviewed by the audit committee of the Company.

Notes:

1. **Basis of preparation**

The consolidated financial statements of the Company were prepared in accordance with HKFRS. The consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS required the use of certain critical accounting estimates. It also required management to exercise its judgement in the process of applying the accounting policies of the Group.

(a) **Standards, amendments and interpretations effective in the Year**

HKFRS 7, "Financial Instruments: Disclosures", and the complementary amendement to HKAS 1, "Presentation of Financial Statements — Capital Disclosures", introduced new disclosures relating to financial instruments and did not have any impact on the classification and valuation of the financial instruments of the Group, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC)-Int 8, "Scope of HKFRS 2", required consideration of transactions involving the issue of equity instruments, where the indentifiable consideration received was less than the fair value of the equity instruments issued in order to establish whether or not they fell within the scope of HKFRS 2. This standard did not have any impact on the financial statements of the Group.

HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment", prohibited the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard did not have any impact on the financial statements of the Group.

(b) **Standards, amendments and interpretations effective in the Year but not relevant**

The following standards, amendements and interpretations to published standards were mandatory for accounting periods beginning on or after 1st January, 2007 but were not relevant to the operations of the Group:

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies"; and

- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives".

(c) **Standards, amendments and interpretations that were not yet effective and were not early adopted by the Group**

The following standards, amendments and interpretations to published standards were published and are mandatory for accounting periods of the Group beginning on or after 1st January, 2008 or later periods, but the Group did not early adopt them:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1st January, 2009). HKAS 1 (Revised) would require all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income would be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It would require presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there would be retrospective adjustments or reclassification adjustments. However, it would not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRS. The Group would apply HKAS 1 (Revised) from 1st January, 2009.

- HKAS 23 (Amendment), "Borrowing Costs" (effective from 1st January, 2009). The amendment would require an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that would take a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs would be removed. The Group will apply HKAS 23 (Amendment) from 1st January, 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKFRS 8, "Operating Segments" (effective from 1st January, 2009). HKFRS 8 would replace HKAS 14 and would align segment reporting with the requirements of the United States of America standard Statement of Financial Accounting Standard Number 131, "Disclosures about Segments of an Enterprise and Related Information". The new standard would require a "management approach", under which segment information would be presented on the same basis as that used for internal reporting purposes. The Group would apply HKFRS 8 from 1st

January, 2009. The expected impact is still being assessed in details by management, but it would appear likely that the number of reportable segments, as well as the manner in which the segments would be reported, would change in a manner that would be consistent with the internal reporting provided to the chief operating decision-maker.

(d) **Standards, amendments and interpretations that were not yet effective in the Year and not relevant for the operations of the Group**

The following interpretations were published and were mandatory for the accounting periods of the Group beginning on or after 1st January, 2008 or later periods but were not relevant for the operations of the Group:

- HK(IFRIC)-Int 11, "HKFRS 2 - Group and Treasury Share Transactions" (effective from 1st March, 2007), would provide guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over shares of a holding company) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the holding company and group companies.

- HK(IFRIC)-Int 12, "Service Concession Arrangements" (effective from 1st January, 2008) would apply to contractual arrangements whereby a private sector operator would participate in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC)-Int 12 would not be relevant to the operations of the Group because none of the companies of the Group provided public sector services.

- HK(IFRIC)-Int 13, "Customer Loyalty Programmes" (effective from 1st July, 2008), would clarify that where goods or services would be sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement would be a multiple-element arrangement and the consideration receivable would be a multiple-element arrangement and the consideration receivable from the customer would be allocated between the components of the arrangement using fair values. HK(IFRIC)-Int 13 would not be relevant to the operations of the Group because none of the companies in the Group operated any loyalty programmes.

- HK(IFRIC)-Int 14, "HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from 1st January, 2008). HK(IFRIC)-Int 14 would provide guidance on assessing the limit in HKAS 19 on the amount of the surplus that could be recognised as an asset. It would also explain how the pension asset or liability might be affected by a statutory or contractual minimum funding requirement.

2. **Trade and bills receivables**

Revenue of the Group were on receipts in advance, letter of credit documents against payment and open terms credit. The credit terms granted to customers varied and were generally the result of negotiations between individual customer and the Group. As at 31st December, 2007, the ageing analysis of the gross trade and bills receivables was as follows:

	2007 **HK$'000**	2006 **HK$'000**
Within three months	**93,866**	110,657
> Three months but ≤ six months	**9,068**	20,225
> Six months but ≤ twelve months	**12,124**	18,571
Over twelve months	**84,277**	100,274
	199,335	249,727

3. **Trade and bills payables**

As at 31st December, 2007, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) was as follows:

	2007	2006
	HK$'000	HK$'000
Within three months	**49,410**	100,766
> Three months but ≤ six months	**2,511**	1,899
> Six months but ≤ twelve months	**13,727**	20,292
Over twelve months	**24,191**	42,194
	89,839	165,151

4. **Revenue**

Revenue comprised the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the activities of the Group. Revenue was shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognised revenue when the amount of revenue could be reliably measured, it was probable that future economic benefits would flow to the entity and specific criteria were met for each of the activities of the Group as described below. The amount of revenue was not considered to be reliably measurable until all contingencies relating to the sale were resolved. The Group based its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) **Design, sale and implementation of data networking systems and the provision of related engineering services**

Revenue from the design, sale and implementation of data networking systems and provision of related engineering services was recognised upon the satisfactory completion of installation, which generally coincided with the time when the systems were delivered to customers.

(b) **Sale of services**

The Group sold maintenance services to the end users. These services were provided as a fixed-price contract, with contract terms generally ranging from less than one year to three years.

Revenue from fixed-price contracts for delivering maintenance services was generally recognised in the period the services were provided, using a straight-line basis over the term of the contract.

Revenue from provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS, commission income and management fee income were recognised when the related services were rendered.

(c) **Sale of mobile phones**

Revenue from sale of mobile phones was recognised when a Group entity sold a product to the customer.

(d) **Digital image processing management solutions**

Revenue from the provision of digital image processing management solutions was recognised upon the transfer of risks and rewards of ownership, which generally coincided with the time when the goods were delivered to the customers and the title had passed.

(e) **Interest income**

Interest income was recognised on a time-proportion basis using the effective interest method. When a receivable was impaired, the Group reduced the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continued unwinding the discount as interest income. Interest income on impaired loans was recognised using the original effective interest rate.

(f) **Dividend income**

Dividend income was recognised when the right to receive payment was established.

5. **Segmental information**

(a) **Primary reporting format - business segments**

As at 31st December, 2006, the Group was organised on a worldwide basis into three main business segments:

(i) Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment;

(ii) Sale of mobile phones; and

(iii) Provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS.

On 18th September, 2007, the Group deregistered the segment of provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS (Note 12).

On 13th December, 2007, the Group determined to dispose of the operations relating to the sale of mobile phones and was expected to sell or liquidate the entire operation in 2008 (Note 12).

The segment results for the Year were as follows:

	Continuing operations	Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment	Sale of mobile phones	Provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	328,061	58,816	14,346	73,162
Operating profit/(loss)	3,864	(478)	254	(224)
Gain on deregistration of subsidiaries	—	—	39,924	39,924
Finance income	4,497			7
Finance costs	(9)			(261)
Finance income/(costs) - net (Note 7)	4,488			(254)
Share of profit of an associate	127			—
Profit before income tax	8,479			39,446
Income tax credit/(expense) (note 8)	9,617			(236)
Profit for the Year	18,096			39,210

Other segment items included in the consolidated income statement were as follows:

	Continuing operations	Discontinued operations
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment	Sale of mobile phones
	HK$'000	HK$'000
Depreciation	1,812	69
Reversal of impairment of trade receivables	(5,628)	—
Reversal of impairment of inventories	(10,111)	—

Inter-segment transfers or transactions were entered into under the normal course of business at terms determined and agreed by both parties.

Segment assets consisted primarily of freehold land, property, plant and equipment, investment in an associate, inventories, income tax prepaid, trade, bills and other receivables, deposits and prepayments, pledged bank deposits, cash and cash equivalents.

Segment liabilities comprised operating liabilities.

Capital expenditure comprised additions to property, plant and equipment.

The segment assets and liabilities as at 31st December, 2007 and capital expenditure for the Year were as follows:

	Continuing operations	Discontinued operations
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment	**Sale of mobile phones**
	HK$'000	HK$'000
Assets	272,501	5,356
Investment in an associate	572	—
Total assets	273,073	5,356
Liabilities	165,760	1,215
Capital expenditure	351	2

(b) **Secondary reporting format - geographical segments**

The three business segments of the Group operated in three main geographical areas, even though they were managed on a worldwide basis.

The continuing operations of the Group were mainly in places within Mainland China, Hong Kong and Macao, while the discontinued operations of the Group were mainly in Macao and Europe for the Year. The operations are principally design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment.

Revenue of the Group was generated mainly from Mainland China, Macao, Hong Kong and Europe.

Revenue	**2007**
	HK$'000
Continuing operations	
Mainland China	**105,571**
Hong Kong	**18,943**
Macao	**203,547**
	328,061
Discontinued operations	
Macao	**58,816**
Europe	**14,346**
	73,162

Revenue was allocated based on the regions in which the customer was located.

Total assets	2007 HK$'000
Continuing operations	
Mainland China	**82,210**
Hong Kong	**14,338**
Macao	**149,986**
	246,534
Investment in an associate	**572**
Unallocated assets	**25,967**
	273,073
Discontinued operations	
Macao	**5,356**

Total assets were allocated based on where the assets were located. Unallocated assets comprised available-for-sale financial assets.

Capital expenditures	2007 HK$'000
Continuing operations	
Mainland China	**210**
Hong Kong	**6**
Macao	**135**
	351
Discontinued operations	
Macao	**2**

Capital expenditure was allocated based on where the assets were located.

6. **Expenses by nature**

	2007 HK$'000	2006 HK$'000 (restated)
Cost of inventories	**223,576**	289,464
Depreciation	**1,812**	3,750
Reversal of impairment of inventories	**(10,111)**	—
(Reversal of impairment)/impairment of trade receivables	**(5,628)**	3,424
Employee benefit expenses (including Directors' emoluments)	**44,111**	39,601

7. **Finance income and costs**

	2007 **HK$'000**	2006 HK$'000
Interest expense:		
- bank loans and overdrafts - wholly repayable within five years	**(9)**	(1,217)
Finance costs	**(9)**	(1,217)
Interest income	**4,497**	2,679
Net finance income	**4,488**	1,462

8. **Income tax credit**

Hong Kong profits tax was provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the Year. Taxation on overseas profits was calculated on the estimated assessable profit for the Year at the rates of taxation prevailing in the regions in which the Group operated.

	2007 **HK$'000**	2006 HK$'000
Current income tax		
- Hong Kong profits tax	**—**	30
- Macao complementary profits tax	**1,435**	766
- Mainland China profits tax	**3,182**	3,337
- Over-provision in prior years	**(14,234)**	(12,455)
	(9,617)	(8,322)

The tax on the profit/(loss) before income tax of the Group differed from the theoretical amount that would arise using the weighted average tax rate applicable to profit/(loss) of the consolidated entities as follows:

	2007 **HK$'000**	2006 HK$'000 (restated)
Profit/(loss) before income tax	**8,479**	(20,955)
Tax calculated at the domestic tax rates applicable to profit/(losses) in the respective regions	**2,382**	(1,360)
Income not subject to tax	**(4,519)**	(5,676)
Expenses not deductible for tax purposes	**6,663**	7,705
Over-provision in prior years	**(14,234)**	(12,455)
Tax losses for which no deferred income tax asset was recognised	**91**	3,464
Income tax credit	**(9,617)**	(8,322)

The weighted average applicable tax rate was 9.98% (2006: 14.28%). The change was caused by a change in the profitabilty of the subsidiaries of the Group in the respective regions.

9. **Earnings/(loss) per Share**

(a) **Basic**

Basic earnings/(loss) per Share was calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of Shares in issue during the Year.

	2007	2006 (restated)
Continuing operations		
Profit/(loss) attributable to equity holders of the Company (HK$'000)	**16,855**	(11,069)
Weighted average number of Shares in issue (thousands)	**613,819**	613,819
Basic earnings/(loss) per Share (HK cents)	**2.74**	(1.80)
Discontinued operations		
Profit/(loss) attributable to equity holders of the Company (HK$'000)	**39,210**	(73,025)
Weighted average number of Shares in issue (thousands)	**613,819**	613,819
Basic earnings/(loss) per Share (HK cents)	**6.39**	(11.90)
Total		
Profit/(loss) attributable to equity holders of the Company (HK$'000)	**56,065**	(84,094)
Weighted average number of Shares in issue (thousands)	**613,819**	613,819
Basic earnings/(loss) per Share (HK cents)	**9.13**	(13.70)

(b) **Diluted**

Diluted earnings per Share was calculated by adjusting the weighted average number of Shares outstanding to assume conversion of all dilutive potential Shares. The Company has Options as dilutive potential Shares. A calculation was made in order to determine the number of Shares that could have been acquired at fair value (determined as the average annual market price of the Shares) based on the monetary value of the subscription rights attached to the outstanding Options. The number of Shares calculated as above was compared with the number of Shares that would have been issued assuming the exercise of the Options. No diluted earnings per Share for the Year was presented as the exercise of the outstanding Options would have an anti-dilutive effect. No diluted loss per Share for the year ended 31st December, 2006 was presented as there were no Options, warrants or other convertible instruments in issue.

10. **Dividends**

The Directors did not recommend the payment of a final dividend for the Year (2006: Nil).

11. **Reserves and accumulated losses**

	Contributed surplus HK$'000	Other reserve HK$'000	Capital redemption reserve HK$'000	Available-for-sale investments reserve HK$'000	Merger reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Total HK$'000	Accumulated losses HK$'000
Balance as at 1st January, 2006	—	—	702	(7,526)	35,549	248	49	29,022	(65,348)
Revaluation	—	—	—	(4,010)	—	—	—	(4,010)	—
Currency translation differences	—	—	—	—	—	(664)	—	(664)	—
Loss for the year ended 31st December, 2006	—	—	—	—	—	—	—	—	(84,094)
Balance as at 31st December, 2006	—	—	702	(11,536)	35,549	(416)	49	24,348	(149,442)
Revaluation	—	—	—	10,640	—	—	—	10,640	—
Reserves transferred to income statement upon disposal of loaned asset	—	—	—	(22)	—	—	—	(22)	—
Reserves transferred to income statement upon deregistration of TCM	—	—	—	—	—	1,671	—	1,671	—
Currency translation differences	—	—	—	—	—	116	—	116	—
Reduction of share premium credited to contributed surplus	97,676	—	—	—	—	—	—	97,676	—
Share-based compensation	—	2,289	—	—	—	—	—	2,289	—
Profit for the Year	—	—	—	—	—	—	—	—	56,065
Balance as at 31st December, 2007	97,676	2,289	702	(918)	35,549	1,371	49	136,718	(93,377)

12. **Non-current assets held for sale and discontinued operations**

During the year ended 31st December, 2006, the Group disposed of its interests in MIHL, which was previously presented as a separate segment for provision of digital imaging processing management solutions. The disposal was completed on 13th June, 2006.

In addition, the Group determined to dispose of TCM, which was presented as a separate segment of provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS on 24th November, 2006. The assets and liabilities related to TCM as at 31st December, 2006 were presented as held for sale. TCM was deregistered on 18th September, 2007.

In addition, the Group determined to dispose of CAOCL, which was presented as a separate segment for sale of mobile phones on 13th December, 2007. The assets and liabilities related to CAOCL as at 31st December, 2007 were presented as held for sale. It was expected that the sale or liquidation of CAOCL will be completed in 2008.

(a) **Non-current assets held for sale**

	2007 HK$'000	2006 HK$'000
Non-current assets held for sale:		
- Intangible assets	**—**	240
- Freehold land	**2,020**	—
- Property, plant and equipment	**234**	2,517
- Inventories	**1,094**	—
- Trade and bill receivables	**1,097**	13,196
- Other receivables, deposits and prepayments	**95**	5,771
- Cash and cash equivalents	**816**	1,132
Total	**5,356**	22,856

(b) **Liabilities directly associated with non-current assets classified as held for sale**

	2007	2006
	HK$'000	HK$'000
Trade and bill payables	**627**	27,351
Other payables and accruals	**588**	28,394
Current income tax liabilities	**—**	510
Borrowings	**—**	7,651
Bank overdrafts	**—**	484
Total	**1,215**	64,390

(c) **Analysis of the results of discontinued operations**

	2007	2006
	HK$'000	HK$'000 (restated)
Revenue	**73,162**	156,708
Cost of sales	**(67,996)**	(132,702)
Gross profit	**5,166**	24,006
Selling and marketing costs	**(209)**	(1,363)
Administrative expenses	**(5,281)**	(45,355)
Other gains - net	**100**	3,072
Operating loss	**(224)**	(19,640)
Impairment of goodwill	**—**	(60,212)
Finance income	**7**	61
Finance costs	**(261)**	(1,156)
Loss from discontinued operations — before income tax	**(478)**	(80,947)
Income tax expense	**(236)**	(215)
Loss from discontinued operations — after income tax	**(714)**	(81,162)
Gain on deregistration of subsidiaries	**39,924**	—
Gain on disposal of subsidiaries (net of tax)	**—**	8,137
Profit/(loss) for the Year from discontinued operations	**39,210**	(73,025)

(d) **Analysis of the cash flows from discontinued operations**

	2007	2006
	HK$'000	HK$'000
Operating cash flows	**4,365**	3,438
Investing cash flows	**2,473**	1,092
Financing cash flows	**(8,135)**	(7,761)
Total cash flows	**(1,297)**	(3,231)

REVIEW OF BUSINESS ACTIVITIES

Macao — Market Prospects Remained Strong

The economy in Macao remained robust as evidenced by gaming revenue generated by the Government of Macao reaching new heights and gaming operators generating increasing percentage of their total gaming revenue from the domestic market. During the Year, the gaming market witnessed new players, like MGM Grand Macau, entering into the arena and the Venetian upgrading their establishment and extending their footprints to the Cotai Strip. Entering into 2008, the Group witnessed the entry of another new player, Ponte 16, into the market.

The major development and expansion of different gaming and hotel operators continued to offer business opportunities for the Group, allowing the Group to yield HK$203,547,000 revenue from the domestic market. During the Year, in addition to laying a structured cabling system for one of the major gaming operators in Macao, the Group continued to be selected as the provider of trunking radio systems by different gaming and hotel operators and by the Government of Macao. In the area of surveillance systems, the Group continued to support the various variation orders and provide after-sales support services to a number of gaming and hotel operators.

During the Year, MDL continued to be selected as one of the major suppliers for the Government of Macao. Subsequent to being one of the service providers for the East Asian Games hosted in Macao during 2005, MDL has again been selected to provide support services during the Asian Indoor Games hosted in Macao during October, 2007. In addition to the traditional business of supplying servers and workstations and installing networking systems, MDL is also involved in developing customised software solutions for different departments of the Government of Macao so as to further improve the efficiency and effectiveness of the departments. Some of the customised software solutions included storage system, patient information system and drivers' licensing printing system.

While the domestic market will continue to offer different business opportunities to the Group in the areas of networking, structured cabling, surveillance and trunking radio systems, maintaining and attracting human resources talents in Macao will again be a major challenge of the Group during 2008, in particular, in controlling total staff costs and ensuring quality in craftsmanship of the team.

Mainland China — Working With A New Market Equation

In Mainland China, the Group continued to work under the new equation as it secured projects requiring balancing of profit margins and payment terms. During the Year, the Group continued to focus its marketing efforts in selected provinces with major contracts won included the installation of broadband and Internet protocol networks for telecommunications service providers in the provinces in Guangdong, Liaoning and Hunan and the municipalities in Shanghai and Beijing. In addition, during the Year, the Group successfully secured a number of support service contracts, which considerably improved the operating margins of the Group.

TSTSH continued to successfully install its CNMS, the upgraded version and different modules of the CNMS, such as the web-based maintenance center system module and the government agency and enterprise customer services module, at the premises of different telecommunications service providers in the provinces of Guangdong, Hubei, Sichuan and Jiangsu and in the municipalities of Shanghai and Chongqing.

During the Year, TSTSH worked out a new business model with a telecommunications service provider in the province of Hainan. In addition to the installation of its CNMS at the premise of the telecommunications service provider, in the event the customers of this telecommunications service provider deploy the CNMS to manage their internal network, TSTSH will be able to generate revenue for environmental monitoring. This will extend the reach of the CNMS of TSTSH from telecommunications service providers to large enterprises and also allow TSTSH to, in the future, develop customised modules for this newly created customer base.

International Investments

TTSA continued to report profit for the Year. During April, 2007, the Group received its first dividend payout from TTSA, bringing in HK$2,735,000 of dividend income for the Group.

During the Year, the Group made a complete exit from TCM and during February, 2008, marked its exit from the business for the distribution of mobile phones in Macao. In line with the winding down of CAOCL, the Group disposed the Property held by CAOCL at HK$4,800,000, generating a gain of HK$2,565,000 on disposal for 2008.

REVIEW OF OPERATING RESULTS

Turnover and Profitability

During the Year, revenue from business activities in Macao of HK$203,547,000 almost leveled the revenue generated in the domestic market during the year ended 31st December, 2006. With business activities in Mainland China focused primarily on selected provinces and on the provision of after-sales support services and the sale of CNMS, revenue derived from Mainland China amounted to HK$105,571,000 or a decrease of 33.14% from last year and contributed to only 32.18% of the total revenue of the Group as compared to 41.58% from last year.

Despite a decrease in total revenue of 13.61% from 2006, attributable to the higher margin business from the provision of after-sales support services and the sale of CNMS by TSTSH and the reversal of impairment of inventories, gross profit margin of the Group increased over the Year from 14.58% to 21.18%.

Attributable to lower revenue derived from Mainland China, selling and marketing costs dropped by 9.89% from HK$7,594,000 to HK$6,843,000. Nevertheless, due to competition for talents in Macao and the granting of Options to employees as another means to motivate them, total employee benefit expenses surged by HK$4,510,000, the increase of which was explained by an average increase of 10% in wages paid and the inclusion of share-based compensation of HK$2,289,000 from the issue of Options to employees during July, 2007.

Included in administrative expenses was a reversal of impairment of trade receivables of HK$5,628,000 subsequent to the recovery of certain doubtful receivables. These reversal was partially offset by the share-based compensation of HK$2,289,000 and additional expenses of HK$976,000 incurred during the Year to wind down TCM.

In view of no borrowings, the Group reported minimal finance costs. With dividend income of HK$2,735,000 received from TTSA, the Group reported profit before income tax of HK$8,479,000, as compared to net loss before income tax of HK$20,955,000 during the year ended 31st December, 2006. Furthermore, including the income tax credit as a result of income tax overprovided in previous years of HK$9,617,000, the Group reported net profit from continuing operations of HK$18,096,000, as compared to net loss from continuing operations of HK$12,633,000 from the corresponding period of last year.

Subsequent to the disposal of TCM, which carried net liabilities, HK$39,210,000 of profit from discontinued operations were recognised, translating to net profit for the Group for the Year of HK$57,306,000 as compared to net loss of HK$85,658,000 for the year ended 31st December, 2006.

Capital Structure and Financial Resources

Attributable to the disposal of TCM, coupled with net profit from continuing operations of HK$18,096,000 for the Year, equity base of the Group improved considerably from HK$39,520,000 to HK$111,454,000.

During the Year, the Group settled all its external borrowings, allowing the Group to enjoy a debt free capital structure. Cash on hand, including pledged deposits with bank for the issue of performance bonds against various projects in Macao, amounted to HK$72,904,000.

Events After the Balance Sheet Date

On 19th February, 2008, a sale and purchase deed was entered into between CAOCL and José Manuel dos Santos, a Director, relating to the sale of the Property for HK$4,800,000, which was satisfied by José Manuel dos Santos in cash. The carrying value of the Property as at 31st December, 2007 amounted to approximately HK$2,235,000.

CORPORATE GOVERNANCE PRACTICES

The Company complied with the Code Provisions of the Code on Corporate Governance Practices, as set out in Appendix 15 of the GEM Listing Rules throughout the Year, except that Fung Kee Yue Roger, an independent non-executive Director, did not attend the Board meeting in which the Directors' service contracts were approved. Fung Kee Yue was away in a business trip on that day.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of the Shares during the Year. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the Year.

DEFINITIONS

"Board"	the board of the Directors
"CAOCL"	Communications Appliances Ou Chung Limited, incorporated in Macao with limited liability and an indirectly wholly-owned subsidiary of the Company
"CNMS"	customer network management system
"Company"	Vodatel Networks Holdings Limited
"Directors"	the directors of the Company
"Exchange"	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
"GEM"	the Growth Enterprise Market operated by the Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time
"Group"	the Company and its subsidiaries
"HK cents"	Hong Kong cents, where 100 HK cents equal HK$1
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong
"HKAS"	Hong Kong Accounting Standard(s)
"HKFRS"	standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong). They comprise 1. Hong Kong Financial Reporting Standards, 2. HKAS (formerly Statement of Standard Accounting Practice), and 3. Interpretations.
"HK(IFRIC)-Int"	Hong Kong (IFRIC) Interpretation
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC (not applicable to Hong Kong Financial Reporting Standards, Hong Kong Accounting Standard, Hong Kong (IFRIC) Interpretation, The Stock Exchange of Hong Kong Limited and the Hong Kong Institute of Certified Public Accountants)
"IVR"	interactive voice response
"Macao"	the Macao Special Administrative Region of the PRC
"Mainland China"	the PRC, other than the regions of Hong Kong, Macao and Taiwan

"MDL"	Mega Datatech Limited, incorporated in Macao with limited liability and an indirect wholly-owned subsidiary of the Company
"MIHL"	AGTech Holdings Limited, a company incorporated in Bermuda with limited liability and shares of HK$0.01 each in the capital of MIHL are listed on GEM (formerly known as MegaInfo Holdings Limited)
"Options"	a right to subscribe for Shares granted pursuant to the share option scheme approved by the holders of Shares at a special general meeting on 5th November, 2002
"PRC"	The People's Republic of China
"Property"	Rua Ribeira do Patane, n°s 52A-52D, Edifício Cho Cheong, A r/c, Macao
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company
"SMS"	short message services
"TCM"	Teleconcept-Multimedia N.V., a deregistered company incorporated in the Kingdom of the Netherlands with limited liability
"TSTSH"	泰思通軟件(上海)有限公司, incorporated in the PRC with limited liability and an indirectly owned subsidiary of the Company
"TTSA"	Timor Telecom S.A., a company incorporated in the Democratic Republic of Timor-Leste with limited liability
"Year"	the year ended 31st December, 2007

By order of the Board
José Manuel dos Santos
Chairman

Macao, 25th March, 2008

Executive Directors
José Manuel dos Santos
Yim Hong
Kuan Kin Man
Monica Maria Nunes

Independent non-executive Directors
Lo King Chiu Charles
Fung Kee Yue Roger

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this announcement is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this document misleading; and 3. all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the Internet website operated by the Exchange for the purposes of GEM on the "Latest Company Announcements" page for at least seven days from the date of posting and on www.irasia.com/listco/hk/vodatel/index.htm and www.vodatelsys.com.

* *for identification purpose only*