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

- Turnover for the Year reached HK$595,431,000, representing an increase of 51.41% over the annualised turnover of the preceding financial period

- Despite closing the Year with a strong quarter, due to lagging effects from the preceding financial period, the Group reported net loss of HK$37,488,000. Operating loss of the three core lines of business narrowed sharply from preceding financial period

- Made early and full repayment of the three year US$15,000,000 (approximately HK$116,303,000) syndicated loans

- Attributable to positive cash generated from operations, cash balances as at 31st December, 2005 amounted to HK$103,054,000

- Gearing ratio improved from 79.57% to 56.33% with current ratio remained stable at approximately 1.10 times

- Benefited from the strong economy and heavy investments by the Government of Macao and gaming operators, business derived from Hong Kong and Macao represented 49.11% of total turnover for the Year

- Further consolidation of operating activities in Mainland China between VTGL and TSTSH to form one unified platform with ultimate aims to maximise utilisation of resources and maintain healthy overall operating margins

- Strong order book with orders on hand reaching over HK$160,000,000 as at 28th February, 2006

- The Board does not recommend payment of a 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, 2005 HK$'000**	2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**12,587**	15,655
Intangible assets		**58,165**	67,898
Interests in associates		**1,832**	1,630
Available-for-sale financial assets		**19,663**	—
Loaned assets		**38,597**	—
Non-trading securities		**—**	72,450
		130,844	157,633
Current assets			
Inventories		**18,619**	47,592
Income tax prepaid		**84**	80
Trade and bills receivables	9	**241,911**	178,536
Other receivables, deposits and prepayments		**27,817**	32,499
Loans and receivables		**774**	—
Other financial assets at fair value through profit or loss		**592**	—
Cash and cash equivalents		**103,054**	168,830
		392,851	427,537
Current liabilities			
Trade and bills payables	10	**183,884**	115,397
Other payables and accruals		**79,146**	84,426
Current income tax liabilities		**54,675**	53,490
Borrowings		**39,216**	132,198
		356,921	385,511
Net current assets		**35,930**	42,026
Total assets less current liabilities		**166,774**	199,659

	Note	As at 31st December, 2005 HK$'000	2004 HK$'000
Financed by:			
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**159,058**	159,058
Other reserves	11	**29,022**	44,649
Accumulated losses	11	**(65,348)**	(30,994)
		122,732	172,713
Minority interests		**9,032**	12,092
Total equity		**131,764**	184,805
LIABILITIES			
Non-current liabilities			
Borrowings		**35,010**	14,854
		166,774	199,659

Consolidated income statement

	Note	**Year HK$'000**	Eighteen months ended 31st December, 2004 HK$'000
Sales	2	**595,431**	589,883
Cost of sales	3	**(508,072)**	(551,922)
Gross profit		**87,359**	37,961
Other gains - net		**13,318**	5,726
Selling and marketing costs	3	**(9,630)**	(14,026)
Administrative expenses	3	**(121,355)**	(204,830)
Operating loss		**(30,308)**	(175,169)
Deemed disposal gain from separate listing of MIHL	4	**—**	17,953
Impairment of goodwill		**(512)**	(25,931)
Finance costs	5	**(7,511)**	(4,346)
Share of profits/(losses) of associates		**202**	(1,511)
Loss before income tax		**(38,129)**	(189,004)
Income tax expense	6	**(2,419)**	(1,898)
Loss for the Year/period		**(40,548)**	(190,902)
Attributable to:			
Equity holders of the Company		**(37,488)**	(173,625)
Minority interests		**(3,060)**	(17,277)
		(40,548)	(190,902)
Loss per Share for loss attributable to the equity holders of the Company during the Year (HK cents)			
- basic	7	**6.11**	28.29
- diluted	7	**Not applicable**	Not applicable
Dividends	8	**—**	3,446

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 and other financial assets at fair value through profit or loss which were carried at fair value.

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 Company.

In the Year, the Group adopted the new or revised standards and interpretations of HKFRS below, which were relevant to its operations. The comparatives were amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases — Incentives
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new or revised HKAS 1, HKAS 2, HKAS 7, HKAS 8, HKAS 10, HKAS 16, HKAS 17, HKAS 21, HKAS 23, HKAS 24, HKAS 27, HKAS 28, HKAS 33, HKAS-Int 15 and HKAS-Int 21 did not result in substantial changes to the accounting policies of the Group. In summary:

— HKAS 1 affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

— HKAS 2, HKAS 8, HKAS 16, HKAS 21 and HKAS 28 affected certain disclosures of the financial statements.

— HKAS 7, HKAS 10, HKAS 17, HKAS 23, HKAS 27, HKAS 33, HKAS-Int 15 and HKAS-Int 21 had no material effect on the policies of the Group.

— HKAS 24 affected the identification of related parties and some other related-party disclosures.

The adoption of HKAS 32 and HKAS 39 resulted in a change in the accounting policy relating to the classification of other financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. It also resulted in the recognition of derivative financial instruments at fair value.

The adoption of HKFRS 2 resulted in a change in accounting policy for share-based payments. Until 31st December, 2004, the provision of share options to employees did not result in an expense to the income statement. Effective from 1st January, 2005, the Group expensed the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November, 2002 and had not yet vested on 1st January, 2005 was expensed retrospectively in the income statement of the respective periods. The Group took advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies were not applied to all share options or shares granted to employees or Directors after 7th November, 2002 but had been vested before 1st January, 2005.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in change in the accounting policy for goodwill. Until 31st December, 2004, goodwill was:

— Amortised on a straight-line basis over a period of not exceeding ten years; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3

— The Group ceased amortisation of goodwill from 1st January, 2005;

— Accumulated amortisation as at 31st December, 2004 was eliminated with a corresponding decrease in the cost of goodwill; and

— From the Year onwards, goodwill will be tested annually for impairment, as well as when there is indication of impairment.

The Group reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies were made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group required retrospective application other than:

— HKAS 39 - did not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 were determined and recognised on 1st January, 2005;

— HKFRS 2 - only retrospective application for all equity instruments granted after 7th November, 2002 and not vested as at 1st January, 2005; and

— HKFRS 3 - prospectively after 1st January, 2005.

The adoption of HKAS 39 resulted in an increase in opening reserves as at 1st January, 2005 by HK$1,127,000 and the details of the adjustments to the balance sheet as at 31st December, 2005 and for the Year were as follows:

	2005
	HK$'000
Increase in available-for-sale financial assets	19,663
Increase in loaned assets	38,597
Increase in loans and receivables	774
Decrease in non-trading securities	(59,626)
Increase in other financial assets at fair value through profit and loss	592
Decrease in accumulated losses	3,134
Decrease in available-for-sale investments reserve	12,245
Decrease in basic loss per share	0.51 cents

There was no impact on diluted loss per share from the adoption of HKAS 39.

2. **Sales and segment information**

Revenue comprised the fair value of 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. Revenue was recognised as follows:

(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 goods — wholesale

Revenue from sale of goods was recognised when the Group delivered the products to the customer, the customer accepted the products and collectibility of the related receivable was reasonably assured.

(c) Sale of goods — retail

Revenue from the sale of goods was recognised when the Group sold a product to the customer. Retail sales were usually in cash. The recorded revenue was the gross amount of sale.

(d) Digital image processing management solutions

Revenue from 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) Provision of services

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 services were rendered.

(f) 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.

(g) Dividend income

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

(h) Operating lease rental income

Operating lease rental income was recognised on a straight-line basis over the period of the lease.

Primary reporting format - business segments

As at 31st December, 2005, the Group was organised on a worldwide basis into three main business segments:

— Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods;

— Provision of digital image processing management solutions; and

— Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS.

Turnover consisted of sales from these three segments, which for the Year was HK$595,431,000 (eighteen months ended 31st December, 2004: HK$589,883,000).

Other operations of the Group mainly comprised the provision of rental services, which did not constitute a separately reportable segment. Rental income for the Year was HK$2,524,000 (eighteen months ended 31st December, 2004: HK$652,000).

The segment results for the Year were as follows:

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Provision of digital image processing management solutions	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Unallocated	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Sales	462,225	48,050	85,156	—	595,431
Operating loss	(4,728)	(7,781)	(3,164)	(14,635)	(30,308)
Impairment of goodwill	—	(512)	—	—	(512)
Finance costs (note 5)					(7,511)
Share of profits of associates					202
Loss before income tax					(38,129)
Income tax expense (note 6)					(2,419)
Loss for the Year					(40,548)

Other segment terms included in the income statement were as follows:

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Provision of digital image processing management solutions	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Unallocated	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Depreciation	4,674	598	1,758	—	7,030
Amortisation	—	—	648	—	648
Impairment of goodwill	—	512	—	—	512
Impairment of trade receivables	6,980	—	360	—	7,340
Impairment of software licence	—	78	—	—	78
Impairment of inventories	7,354	—	—	—	7,354

Unallocated costs represented corporate expenses. Inter-segment transfers or transactions were carried out in the normal course of business at terms determined and agreed by both parties.

The segment assets and liabilities as at 31st December, 2005 and capital expenditure for the Year were as follows:

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Provision of digital image processing management solutions	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Unallocated	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets	341,174	28,448	92,087	60,154	521,863
Associates	1,818	14	—	—	1,832
Total assets	342,992	28,462	92,087	60,154	523,695
Liabilities	274,471	20,678	58,856	37,926	391,931
Capital expenditure	1,074	593	3,048	—	4,715

Segment assets consisted primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash. They excluded items such as available-for-sale financial assets, loans and receivables and other financial assets at fair value through profit or loss.

Segment liabilities comprised operating liabilities. They mainly excluded borrowings.

Capital expenditure comprised additions to property, plant and equipment and intangible assets.

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 operations of the Group were mainly in places within Mainland China, Hong Kong and Macao and Europe.

There were no sales between the geographical segments.

Sales	**Year**
	HK$'000
Mainland China	217,859
Hong Kong and Macao	292,416
Europe	85,156
	595,431

Sales were allocated on the places in which customers were located.

Total assets	**2005**
	HK$'000
Mainland China	100,969
Hong Kong and Macao	268,653
Europe	92,087
	461,709
Associates	1,832
Unallocated assets	60,154
	523,695

Total assets were allocated based on where the assets were located.

Capital expenditure	**Year**
	HK$'000
Mainland China	210
Hong Kong and Macao	1,457
Europe	3,048
	4,715

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

Analysis of sales by category	**Year** **HK$'000**	Eighteen months ended 31st December, 2004 HK$'000
Revenue from design, sale and implementation of data networking systems and provision of related engineering services	**406,027**	502,441
Revenue from provision of digital image processing management solutions	**48,050**	17,694
Revenue from provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	**85,156**	39,850
Sale of goods	**53,674**	29,246
Operating lease rental income	**2,524**	652
	595,431	589,883

3. **Expenses by nature**

Expenses included in cost of sales, selling and marketing costs and administrative expenses were analysed as follows:

	Year **HK$'000**	Eighteen months ended 31st December, 2004 HK$'000
Amortisation of goodwill	**—**	5,506
Amortisation of software licence	**648**	1,833
Cost of inventories	**443,912**	439,452
Depreciation of fixed assets	**7,030**	8,041
Impairment of trade receivables	**7,340**	51,170
Employee benefit expense (including Directors' emoluments)	**63,915**	70,606
Impairment of inventories	**7,354**	49,646

4. **Deemed disposal gain from separate listing of MIHL**

On 19th January, 2004, Shares of MIHL were listed and traded on GEM by the issue of new Shares of MIHL. As a result, the shareholding of the Company in MIHL was diluted to 61.05%, which resulted in a gain of approximately HK$17,953,000 arising from this deemed disposal.

5. **Finance costs**

	Year **HK$'000**	Eighteen months ended 31st December, 2004 HK$'000
Interest expense:		
- bank borrowings: bank loans and overdrafts — wholly repayable within five years	**5,773**	3,073
- other loan - wholly repayable within five years	**1,738**	1,087
- convertible bonds - wholly repayable within five years	**—**	186
	7,511	4,346

6. **Income tax expense**

Hong Kong profits tax was provided at the rate of 17.5% (eighteen months ended 31st December, 2004: 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.

	Year HK$'000	Eighteen months ended 31st December, 2004 HK$'000
Current income tax		
- Hong Kong profits tax	**—**	126
- Macao complementary profits tax	**36**	26
- Mainland China profits tax	**1,897**	1,600
- Overseas taxation	**486**	29
- Under-provision in prior years	**—**	117
Income tax expense	**2,419**	1,898

The tax on the loss before tax of the Group differed from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	Year HK$'000	Eighteen months ended 31st December, 2004 HK$'000
Loss before tax	**(38,129)**	(189,004)
Tax calculated at the domestic tax rates applicable to losses in the regions	**(5,695)**	(35,497)
Income not subject to tax	**(1,828)**	(85)
Expenses not deductible for tax purposes	**1,891**	8,553
Mainland China deemed income tax	**36**	260
Under-provision in prior years	**—**	117
Utilisation of previously unrecognised tax losses	**(1,430)**	—
Tax losses for which no deferred income tax asset was recognised	**9,445**	28,550
Income tax expense	**2,419**	1,898

The weighted average applicable tax rate was 14.94% (eighteen months ended 31st December, 2004: 18.78%).

7. **Loss per Share**

Basic

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

	Year	Eighteen months ended 31st December, 2004
Loss attributable to equity holders of the Company (HK$'000)	**37,488**	173,625
Weighted average number of Shares in issue (thousands)	**613,819**	613,819
Basic loss per Share (HK cents)	**6.11**	28.29

Diluted

No diluted earnings per Share for the Year and eighteen months ended 31st December, 2004 were presented as the exercise of the outstanding share options of the Company would have an anti-dilutive effect.

8. **Dividends**

No dividend was paid during the Year.

The dividends paid during the eighteen months ended 31st December, 2004 included the final dividend of HK$3,069,000 (HK$0.005 per Share) for the year ended 30th June, 2003, the interim dividend and the special interim dividend of HK$3,069,000 (HK$0.005 per share) and HK$377,000 (note) respectively for the eighteen months ended 31st December, 2004.

Note:

On 19th December, 2003, the Board approved the payment of a special interim dividend as part of the proposal for the separate listing of MIHL by way of a distribution in specie in respect of an aggregate of 13,375,000 Shares of MIHL to Members, where every 46 Shares were entitled to 1 Share of MIHL.

The Directors did not recommend the payment of a dividend.

9. **Trade and bills receivables**

The credit terms granted to customers varied and were generally the result of negotiations between individual customers and the Group. As at 31st December, 2005, the ageing analysis of the trade and bills receivables were as follows:

	2005 HK$'000	2004 HK$'000
Within three months	**175,538**	143,579
> Three months but ≤ six months	**46,327**	20,544
> Six months but ≤ twelve months	**15,703**	23,718
Over twelve months	**91,627**	77,398
	329,195	265,239
Less: provision for impairment of trade receivables	**(87,284)**	(86,703)
	241,911	178,536

10 **Trade and bills payables**

As at 31st December, 2005, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) were as follows:

	2005	2004
	HK$'000	HK$'000
Within three months	**139,595**	76,012
> Three months but ≤ six months	**34,411**	13,645
> Six months but ≤ twelve months	**4,238**	6,961
Over twelve months	**5,640**	18,779
	183,884	115,397

11. **Other reserves and accumulated losses**

	Capital redemption reserve	**Non-trading securities/ Available-for-sale investments reserve**	**Merger reserve**	**Translation reserve**	**Statutory reserve**	**Total**	**Accumulated losses**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance as at 1st July, 2003	702	(4,158)	35,549	108	49	32,250	149,146
Revaluation	—	5,516	—	—	—	5,516	—
Reserves transferred to income statement upon disposal of a non-trading security	—	3,957	—	—	—	3,957	—
Currency translation differences	—	—	—	2,926	—	2,926	—
Loss for the eighteen months ended 31st December, 2004	—	—	—	—	—	—	(173,625)
Twelve months ended 30th June, 2003 final dividend paid	—	—	—	—	—	—	(3,069)
Eighteen months ended 31st December, 2004 interim dividend paid	—	—	—	—	—	—	(3,069)
Eighteen months ended 31st December, 2004 special interim dividend paid	—	—	—	—	—	—	(377)
Balance as at 31st December, 2004	702	5,315	35,549	3,034	49	44,649	(30,994)
Balance as at 1st January, 2005, as per above	**702**	**5,315**	**35,549**	**3,034**	**49**	**44,649**	**(30,994)**
Opening adjustment for the adoption of HKAS 39	**—**	**(2,007)**	**—**	**—**	**—**	**(2,007)**	**3,134**
Balance as at 1st January, 2005 as restated	**702**	**3,308**	**35,549**	**3,034**	**49**	**42,642**	**(27,860)**
Revaluation	**—**	**(10,238)**	**—**	**—**	**—**	**(10,238)**	**—**
Reserves transferred to income statement upon disposal of available-for-sale financial assets	**—**	**(596)**	**—**	**—**	**—**	**(596)**	**—**
Currency translation differences	**—**	**—**	**—**	**(2,786)**	**—**	**(2,786)**	**—**
Loss for the Year	**—**	**—**	**—**	**—**	**—**	**—**	**(37,488)**
Balance as at 31st December, 2005	**702**	**(7,526)**	**35,549**	**248**	**49**	**29,022**	**(65,348)**

BUSINESS REVIEW

Mainland China — Consolidating resources to achieve greater efficiency

Adapting to changing market parameters to adjust increasing competitive operating environment in Mainland China and to achieve geographical diversification, business derived from Mainland China amounted HK$217,859,000, representing 36.59% of total turnover of the Group for the Year as compared to 67.96% of total turnover for the preceding financial period.

During the Year, capitalising on the strategic moves made during 2004 to streamline local operations by combining and consolidating the representative offices and promoting the self-developed OSS, the marketing and technical teams in Mainland China have emerged to become much stronger, more effective and more competitive. With special focus to minimise risk of uncollectibility, marketing activities in the arena of construction of data networking infrastructure have been geared towards a handful of provinces and cities, including the Guangdong Province, Shanghai and Beijing. Despite so, contracts recorded in the order book of the Group as at 28th February, 2006 amounted approximately US$5,000,000 (approximately HK$38,768,000).

Performance of TSTSH continued to gain momentum, with over US$2,600,000 (approximately HK$20,159,000) worth of contracts secured as at 28th February, 2006. Today, OSS of TSTSH, in addition to being installed at the telecommunications bureaus in Guangdong, Chongqing, Xinjiang and Wuxi, TSTSH successfully secured further contracts during the Year to install the OSS at the telecommunications bureaus in Sichuan, Hubei and Inner Mongolia. Moreover, TSTSH continued to be awarded expansion contracts to enhance the scope and functionalities of the OSS for its existing customers, including Chongqing China Telecom, Xinjiang China Telecom and Guangdong China Telecom, the latter of which deployed the OSS of TSTSH to manage its data networks since 2003.

To strive for continuous improvement to operating efficiency and operating margins, the Group is in the process of consolidating the local representative offices of VTGL and TSTSH, as via one unified platform, the Group will be able to achieve further cost savings, leverage geographical coverage, better utilise marketing resources and maximise return from the premium customer bases of both VTGL and TSTSH. More importantly, the combination of system integration and provision of software solutions differentiates its positioning in the marketplace and allows the Group to maintain healthy overall operating margins.

Macao — Maintaining a leading market positioning

Benefiting from strong business momentum of Macao, with strong orders received during the Year, business derived from Hong Kong and Macao soared to HK$292,416,000, representing 49.11% of total turnover of the Group. MIHL, the spun off listed entity of the Group, was also a beneficiary of the robust local economy, with turnover for the Year almost tripling from HK$17,694,000 to HK$48,050,000 and achieving breakeven to its bottom-line for the six months ended 31st December, 2005.

Business derived during the Year was fuelled primarily from investments made by the Government of Macao and the East Asian Games. In the upcoming years, the Group anticipates that investments made by gaming and hotel operators will become the main drivers of revenue for the Group, as evidenced by orders on hand from gaming operators already exceeding HK$110,000,000 as at 28th February, 2006.

While a strong economy generates numerous business opportunities, it has concurrently created pressure to human resources and cost of conducting business. Therefore, while the Group has flexibly adjusted its human resources by relocating its technical team from Mainland China to Macao, permitting better management of human resources needs and control of labour costs, the Group believes that human resources allocation will remain a challenge during 2006.

International Operations — Repositioning to gain a stable footing

In Europe, during the Year, TCM continued to deploy the business model of using premium SMS and premium voice services to deliver premium content such as mobile wallpapers, ring-tones and short videos to end-users through its SMS, wireless application protocol portals or IVR.

In products and services, TCM continued to roll out premium mobile content, such as polyphonic ring-tones, real-tones, wallpapers for mobiles and Java games. Contents sourced from various mobile game developers, music labels and content aggregators on revenue sharing basis were sold via its own web portals in Spain and in the Netherlands. Various unique content products are also internally developed to improve margins of contents sold.

In the provision of interactive games and entertainment, STASA continued to operate one of the largest tarot reading services in Spain with live tarot experts taking calls for live chatting and consultancy around the clock. Moreover, TCM partnered with major magazines and TV stations to roll out various formats of “Call & Win”, “SMS & Win” and “Call-TV” services.

In the provision of mass calling and micro-billing solutions, TCM now operates IVR platforms in Spain and in the Netherlands. These platforms are capable of handling heavy volume traffic, such as for national voting for TV shows, and can support high volume call setup capacity with high availability and reliability. The platform of STASA supports programmes from all three national TV stations and is currently the only interactivity company that provides services to all three national TV stations in Spain.

With respect to its operations in the Asia Pacific Region, while the Group is in the process of reviewing its investments in the Socialist Republic of Vietnam, Mobile Telecom Network (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and whose shares of US$0.01 each are listed on GEM, with geographical coverage in various countries in the Asia Pacific Region and where the Group has 20% equity interests, continues to put its primary focus on 2.5G and 3G services provisioning. And for Timor Telecom, S.A., which is the sole operator of telecommunications services in the Democratic Republic of Timor-Leste and where the Group has 16.9% equity interests, the operator reported net profit exceeding US$2,000,000 (approximately HK$15,507,000) for the second year since its establishment in 2001.

Capital Structure and Financial Resources

Despite the early and full repayment of the three-year US$15,000,000 (approximately HK$116,303,000) syndicated loans, the Group continued to maintain healthy cash position, with cash balances as at 31st December, 2005 amounting to HK$103,054,000 (HK$141,822,000 should the yield-enhanced US$5,000,000 (approximately HK$38,768,000) financial bonds was included), translating to cash per share of HK$0.17 (HK$0.23 should the US$5,000,000 (approximately HK$38,768,000) financial bond is included).

In line with the repayment of the three-year syndicated loans, total borrowings of the Group reduced considerably from HK$147,052,000 to HK$74,226,000, with gearing ratio (total borrowings / Members' funds) improving from 79.57% to 56.33%.

Current ratio remained stable at approximately 1.10 times.

STATEMENT ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices, as set out in Appendix 15 of the GEM Listing Rules, except that the chairman of the Board did not attend the annual general meeting held in the Year.

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
"Company"	Vodatel Networks Holdings Limited
"Director(s)"	the director(s) 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

"HKFRS"	financial reporting standards approved by the Council of the HKICPA, and includes all HKAS and interpretations of HKFRS approved by the HKICPA from time to time
"HKICPA"	the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong)
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC (not applicable to The Stock Exchange of Hong Kong Limited, Hong Kong Accounting Standard 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
"Members"	holders of Shares
"MIHL"	MegaInfo Holdings Limited, incorporated in Bermuda with limited liability, an indirectly owned subsidiary of the Company and Shares of MIHL are listed on GEM
"OSS"	Operation Support System
"PRC"	The People's Republic of China
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company
"Shares of MIHL"	shares of HK$0.01 each in the capital of MIHL
"SMS"	short message services
"Spain"	the Kingdom of Spain
"SSAP"	Statement of Standard Accounting Practice
"STASA"	Servicios Telefónicos de Audiotex, Sociedad Anónima, incorporated in Spain with limited liability and an indirectly owned subsidiary of the Company
"TCM"	Teleconcept-Multimedia N.V., incorporated in the Netherlands with limited liability and an indirectly owned subsidiary of the Company
"The Netherlands"	The Kingdom of the Netherlands

"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
"US$"	United States Dollars, the lawful currency of the United States of America
"VTGL"	廣州愛達利科技有限公司, incorporated in the PRC with limited liability and an indirectly wholly-owned subsidiary of the Company
"Year"	the year ended 31st December, 2005

By order of the Board
José Manuel dos Santos
Chairman

Hong Kong, 27th March, 2006

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

Independent non-executive Directors
Chui Sai Cheong
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 "Latest Company Announcements" page on the website operated by the Exchange for the purposes of GEM for at least seven days from the date of publication and on www.vodatelsys.com.

** For identification purpose only*