VODATEL

(Stock code: 8033)

2006 annual report

Characteristics of GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in Gazetted Newspapers. Accordingly, prospective investors should note that they need to have access to the GEM Website in order to obtain up-to-date information on GEM-listed issuers.

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Corporate Information

Directors

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

Authorised Representatives

Yim Hong

Monica Maria Nunes

Company Secretary

Foo Chun Ngai Redford, ACS, ACIS, FCCA, FCPA

Qualified Accountant

Foo Chun Ngai Redford, ACS, ACIS, FCCA, FCPA

Compliance Officer

Monica Maria Nunes

Audit Committee

Chui Sai Cheong

Lo King Chiu Charles

Fung Kee Yue Roger

Auditors

PricewaterhouseCoopers

Certified Public Accountants

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Hong Kong

Registered Office

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Bermuda

Head Office and Principal Place of Business

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Bankers

Banco Comercial de Macau, S.A.

Banco Nacional Ultramarino, S.A.

Share Registrars

Abacus Share Registrars Limited

Level 28, Three Pacific Place

1 Queen's Road East

Hong Kong

Company Profile

The Group carries the vision to deliver high quality solutions to customers allowing them to manage their business and reach out for infotainment services, anywhere and anytime. The Group principally engages in the provision of network and system infrastructure, enterprise solutions and multimedia value-added services.

The Group provides integrated services in network and system infrastructure ranging from network and system planning, design, provision of network equipment and software, installation and implementation to maintenance and technical support for public telecommunications service providers, such as China Telecom, China Netcom, China Unicom and China Mobile, and enterprises in selected vertical markets in Mainland China and Macao, such as gaming operators, cable TV operators, electricity bureaus and governmental authorities.

The Group is also engaged in the provision of multimedia value-added services in the Asia Pacific Region and Europe, offering mobile and fixed line services such as content and campaign management, distribution and billing via a number of platforms including IVR, interactive internet solutions and premium rate SMS.

Headquartered in Macao and listed on GEM, the Group enjoys a leadership position in Macao and seeks to further expand its penetration into the global market.

Chairman's Statement

Dear Members,

If you take only one message from this annual report, it should be that Vodatel is up to the challenge with a clear vision to improve our business and financial performance as we are committed to overcome the challenges that negatively affected our performance during 2006 and the preceding two years.

In what has been a most challenging year for Vodatel, 2006 can certainly be described as a year of consolidation and refocus, for reasons that during the Year, we took some major steps to realign our business activities and geographical presence. The foundation of the Group remains solid despite making an exit on certain invested assets.

Since the listing of the Group during 2000, we continuously sought business opportunities to expand both the products and services offerings and geographical footprints — with goals to build a sustainable and well-diversified company, create values for our Members and to develop Vodatel into a company that you will be proud of. Consequently, we invested in different assets, including an equity participation in a joint venture with LG to enter the wireless communications market, a partnership to expand our geographical footage in the provision of data networking solutions in Vietnam, an equity participation in MTNHL and TCM to venture into the multimedia value-added interactivity sector in the Asia Pacific Region and Europe respectively. These invested assets posted major challenges to the management team to efficiently allocate financial resources and manage a multi-national, multi-cultural and dynamic operating environment.

With contribution of certain invested assets below expectations and with growing demand to fund others to ensure their survival and continuity, during the Year, we undertook a major reconciliation of the performance of individual invested asset based on their future prospects, need of capital and ability to provide stable and recurring earnings. To ensure effective allocation and utilisation of human and financial resources, and not compromising on cashflow, we incurred losses and marked our exit from certain invested assets that offered limited long-term potential. While the disposal of MIHL brought in HK$8,137,000 of profit, the decision to exit TCM resulted in an additional loss of HK$60,212,000 from the write-off of the goodwill. We further incurred aggregate losses of HK$868,000 from the disposal of the joint venture with LG and withdrawal from the partnership in Vietnam.

The decision to exit these invested assets during the Year repatriated us to refocus on our traditional core business, that is, construction of data and telecommunications infrastructure for telecommunications service providers, governments, gaming and hotel operators in Mainland China and Macao. During the Year, the core business continued to show improvements, with net loss narrowing from HK$28,872,000 to HK$14,477,000.

Despite continuing improvements since our worst year during 2004, we are certainly not satisfied with the results of the Group for the Year. To us, the most important and immediate challenge in the years to come is to further improve our returns and the balance sheet. Taking prudent cash management and capital discipline as bedrocks, we strive to:

- focus and consolidate our resources in the provision and support of infrastructural needs for customers in Mainland China and Macao;
- increase sales of the higher margin OSS, self-developed by TSTSH;
- earn our first monthly income via the BizNatvigator programme with China Telecom;
- secure more service and maintenance contracts; and
- seek for golden opportunities similar to the investment we made in Timor Telecom S.A., who reported net profit for three consecutive years and with distribution of first dividend to its shareholders expected during 2007.

We are ready for the challenge, but not without your continued support and those from our customers, suppliers and fellow colleagues. Therefore, we would like to take this opportunity to thank you for your patience in us.

José Manuel dos Santos
Chairman

Macao, 26th March, 2007

Management Discussion and Analysis

REVIEW OF BUSINESS ACTIVITIES

Maintaining Momentum

With gaming revenue reaching record high, Macao continues to benefit from the massive investments and construction activities by gaming and hotel operators. Today, while new gaming operators are actively building their flagships and existing operators are rapidly expanding and upgrading their establishments, the Government of Macao has also been heavily investing in various public works. With roots in Macao, the Group is a beneficiary to the robust economy, generating over HK$221,851,000 worth of revenue from infrastructural contracts secured from the Government of Macao and different gaming and hotel operators. During the Year, the Group continued to focus on the provision of systems in the areas of structured cabling, surveillance, trunking radio, networking and access control and is proud to be selected as the solution provider to supply and build surveillance systems for over five major gaming establishments and to lay structured cabling systems at over three major gaming premises. As a solution provider of trunking radio systems for over ten years, the Group has been able to gain a dominant and leading position in this market in Macao. Today, major customers in this sector range from the Government of Macao to various gaming and hotel operators.

With the gaming industry remains strong and different gaming operators upgrading and expanding their existing establishments and building mega resorts, the Group believes that the business momentum in Macao will continue. Entering into 2007, the Group started off the new year well with orders on hand from various gaming and hotel operators exceeding HK$45,000,000 as at 26th March, 2007. Though encouraged by the award of these contracts, demand for human and financial resources mounts, therefore, effective planning and utilisation of resources across the Group and cost control will be the major challenges to come.

Creating a unified platform

The operating environment for data networking continues to be challenging. With competition based on margins and payment terms, the Group will continue to deal with this fundamentally new equation in Mainland China. Attributable to ample opportunities in Macao, the Group has been able to carefully select business activities in Mainland China. To ensure recoverability of receivables and not compromising on returns, telecommunications service providers in the Guangdong Province, Shanghai and Beijing remain the focus of the Group.

REVIEW OF BUSINESS ACTIVITIES (Continued)

Creating a unified platform (Continued)

During 2005, the Group combined the representative offices in Mainland China with those of TSTSH to create a unified platform so as to leverage on the established marketing networks built by the Group over the years to promote different products and services. During the Year, the local team in Mainland China and TSTSH joint forces and successfully secured contracts to deploy modules of the OSS at China Telecom in the provinces of Guangdong, Jiangsu and Sichuan, the autonomous region in Xinjiang and the municipality of Chongqing. Going forward, the local team in Mainland China will continue to work closely with TSTSH to secure repeated sales and to penetrate into new customers, including China Telecom in the provinces of Hubei, Anhui, Gansu and Shanxi and China Netcom and China Unicom in selected provinces.

Leveraging on the unified platform, the Group has also commenced trial programs under the BizNavigator with China Telecom to roll out a resources management application that offers real-time value-added services in the areas of sales, inventory and production management to enterprises in different provinces. Trial programs continued underway so as to allow the Group to better ascertain the benefits and shortcomings of the resources management application and the long-term potential of the market for such application.

Making an exit

Business prospects of TCM remained positive, with STASA providing interactivity services to all three largest television stations in Spain and the roll-out of successful SMS services, and TMBV successfully securing the contract to rollout lottery related services in the Netherlands. Nevertheless, with sustained losses since the acquisition by the Group during 2004 and borrowings becoming due, there is a need of major capital injection to revive the asset base of TCM. In view of such heavy capital requirements will significantly weaken the financial foundation of the Group, the Group marks its exit from TCM.

In the absence of financial support towards TCM, the financial standing of TCM has been adversely affected, resulting in a heavily net liability position of HK$41,534,000. Since placing TCM in the market for sale during the Year, certain assets of TMBV have been disposed of during December, 2006 and during January, 2007, VFO has been sold. Currently, TCM is in active negotiations with various potential investors to dispose STASA. In Germany, due to introduction of a new legislation, the business activities of SGMBH has been severely hampered and the failure to service its liabilities when due resulted in insolvency procedures underway. The Group believes that in the event of failure to dispose the remaining assets and subsidiaries of TCM in the near term, insolvency proceedings and/or liquidation will effect.

Management Discussion and Analysis

REVIEW OF OPERATING RESULTS

Turnover and Profitability

Attributable to heightened and massive investments, revenue derived from business activities in Hong Kong and Macao contributed 63.84% of the total revenue from continuing operations of the Group, with business activities from Mainland China contributing only 36.16% of total revenue during the Year. Lower revenue from Mainland China resulted in total revenue for the Year to decrease slightly by 5.62% from HK$462,225,000 to HK$436,720,000.

With the composition of total revenue included revenue derived from distribution of mobile phones, which carries low margin in nature, the Group registered gross profit of HK$56,663,000 for the Year. Despite lower total revenue, improved margins from business activities in infrastructural projects in Macao and Mainland China translated to an improvement of gross profit margin for the Group from 11.83% for the preceding year to 12.97% for 2006.

As a result of competition of talents, thus driving up wages in Macao, total employee benefit expenses for the Year increased by 13.26% to HK$41,269,000. Despite increased employee benefit expenses and losses booked from the disposal of the joint venture with LG and the withdrawal from Vietnam, attributable to the reversal of the income tax provision made in previous years, results of the Group for the Year from continuing operations improved over the preceding year with net loss narrowing from HK$28,872,000 to HK$14,477,000.

The disposal of MIHL during the Year brought in HK$8,137,000 of profit, however, with the exit of TCM effectuating the full write-off of the goodwill, the Group registered loss for the Year from discontinued operations of HK$71,181,000, and with total loss of the Group for the Year to reach HK$85,658,000.

Capital Structure and Financial Resources

Attributable to the net liability position of TCM, the Group reported an equity base of HK$39,520,000. In the absence of the adverse financial impact of TCM, the equity base of the Group would have been improved considerably to HK$81,054,000 and with current ratio and gearing ratio (total borrowings / total equity) standing at 1.2 times and 43.5% respectively.

REVIEW OF OPERATING RESULTS (Continued)

Employees' Information

As at 31st December, 2006, the Group had 319 employees, of which 99, 17, 167 and 36 employees were based in Macao, Hong Kong, Mainland China and Europe respectively.

The remuneration and bonus policies of the Group were basically determined by the performance of individual employees.

The Company adopted a share option scheme whereby certain employees of the Group may be granted options to acquire the Shares. Details of the share option scheme are set out under the section "Share options" in the report of the Directors.

The Group also provided various training programmes and product orientation for the marketing and technical employees so as to improve their overall qualification and to continuously keep them abreast of industry and technological changes.

Capital Commitments and Significant Investments

As at 31st December, 2006, the Group did not have any significant capital commitments and significant investments.

Charges on Group Assets

As at 31st December, 2006, the Group did not have any charges on assets of the Group.

Details of Material Acquisitions and Disposals

On 13th June, 2006, the Group disposed of its interest of 61.05% in MIHL for a consideration satisfied by cash of approximately HK$10,378,000.

Save as disclosed above, during the Year, the Group had no material acquisitions or disposals.

Details of Future Plans for Material Investment or Capital Assets

The Directors do not have any future plans for material investments or capital assets.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in HK$, MOP, US$, € and RMB. The Directors consider that the impact of foreign exchange exposure of the Group is minimal, except for €.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

José Manuel DOS SANTOS, aged 59, was first appointed as an executive Director on 13th December, 1999. He is the founder of the Group and Chairman of the Company. He has experience of over thirty years in the telecommunications industry in the Asia Pacific region. He served in a senior position at Direcção dos Serviços de Correcios e Telecomunicações, the telecommunications authority of the Government of Macao, prior to the founding of Zetronic and subsequently the Group.

YIM Hong, aged 49, was first appointed as an executive Director on 14th December, 1999. He is the Managing Director of the Company in charge of overall operations. He graduated from Queen Mary, University of London, UK with a Bachelor of Science degree. With more than twenty years of experience in the IT industry, he joined the Group in 1998. Prior to joining the Group, he was the area business director at Newbridge Networks (Asia) Limited and the country manager at 3Com Asia Limited.

KUAN Kin Man, aged 41, was first appointed as an executive Director on 14th December, 1999. He is the general manager of the Group in charge of sales and marketing. In 1985, he joined Zetronic as an engineer and was transferred into marketing later. He joined Vodatel Systems (the assets and liabilities of which were assigned to VHL on 1st July, 1998) on 8th July, 1992 to assume the role of sales manager and was promoted to general manager in 1994.

Monica Maria NUNES, aged 38, was first appointed as an executive Director on 13th December, 1999. She is the finance director of the Company. She graduated from the University of Calgary, Canada with a Bachelor of Commerce degree. She joined the Group in 1999 and has over ten years of accounting and banking experience. She holds a Certified Management Accountant Designation of Certified Management Accountants of Alberta, Canada.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHUI Sai Cheong, aged 53, was first appointed as an independent non-executive Director on 14th December, 1999. He is a certified public auditor, a civil constructor in Macao and a fellow of CPA Australia with a Master Degree in Business Administration from Chaminade University of Honolulu, USA. He is a member of several key committees in both the Central People's Government of the PRC and the Government of Macao. They include the National Committee of the CPPCC, the Committee for the Basic Law of Macao under the Standing Committee of the National People's Congress, the Executive Committee and Standing Committee of All-China Federation of Industry and Commerce, the Legislative Assembly of Macao, the Preparatory Committee of Macao, the Selection Committee for the first Government of Macao and the Election Committee of the second Government of Macao. He also holds several prominent positions in professional bodies including the Macao Chamber of Commerce (vice president of board of directors), the Macau Management Association (president), and Union of Associations of Professional Accountants of Macau (president). He is an independent non-executive director of Innovo Leisure Recreation Holdings Limited (a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board) and Macau Prime Properties Holdings Limited (a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board).

LO King Chiu Charles, aged 63, was first appointed as an independent non-executive Director on 14th December, 1999. He holds a Bachelor of Arts degree and major in economics from Lake Forest University, USA in 1967. He is a member of Jiangxi Province Committee, CPPCC. He is the special advisor to president (Asia) of the University of Victoria, Canada and is a consultant on public relations for British American Tobacco Plc in Macao. He is also the founder of the Macao Junior Chamber of Commerce and past president of the Rotary Club in Macao.

FUNG Kee Yue Roger, aged 54, was first appointed as an independent non-executive Director on 30th September, 2004. He is the managing director of Mitel Networks Asia Pacific Limited, a wholly-owned subsidiary of Mitel Networks Corporation in Canada. He graduated from the University of Toronto, Canada with a Bachelor of Applied Science degree in industrial engineering. He was a member of Professional Engineers Ontario, Canada. He has more than twenty years of experience in the telecommunications and electronics industry.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT (By alphabetical order)

CHAN Chi Pio, aged 37, is the technical support manager of the Group. He joined the Group in 1992 after having graduated from Huaqiao University, PRC with a Bachelor of Science degree in the same year.

CHAN Ka Man Alan, aged 37, is currently the senior project manager of the Group, responsible for managing system integration projects for the government and gaming operators in Macao. Prior to his joining the Group in 2003, he worked for several system integrators in Hong Kong for over ten years, delivering a range of information and security systems to both public and private sector. He graduated from University of Northumbria, UK with a degree of Bachelor of Engineering, followed by an approved Honours programme in Communication and Electronic Engineering, and holds double degrees of Master of Commerce (Electronic Commerce) and Master of Technology Management in the field of Electronic Business from the University of Queensland, Australia. He is also a Project Management Professional and a PRINCE2 Registered Practitioner.

CHEONG Kuan Pat, aged 42, is the general manager of MDL. He graduated from AIOUM, PRC with a Master of Business Administration degree. He has been working in the IT industry in Macao for over twenty years. He joined MDL in 1993 as the chief of product sales and marketing department.

FOO Chun Ngai Redford, aged 33, is the company secretary and qualified accountant of the Company. He joined the Company in September, 2003. He is responsible for company secretarial matters and overall financial and accounting management of the Group. He graduated from the University of Hong Kong, PRC with a degree of Bachelor of Business Administration in Accounting and Finance. He is a fellow of the Association of Chartered Certified Accountants and HKICPA. He is also an associate of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Before joining the Company, he worked for another company listed on GEM as the company secretary and qualified accountant and for an international renowned accounting firm.

HO Wai Sam Paul, aged 44, is the director of technical services of the Group. He graduated from AIOUM, PRC with a Master of Business Administration degree. He had worked in Companhia de Telecomunicações de Macau S.A.R.L. for eighteen years and was head of transport network covering the international and national engineering such as optical fibre, synchronous and plesiochronous digital hierarchy transmission, submarine cable, microwave and satellite earth station. He joined the Group in 2000.

Manouchehr MEHRABI, aged 48, is senior network consultant of the Group. He obtained his Bachelor of Computer Science degree from Concordia University, Canada in 1984. Over the years, he occupied a number of IT positions, including programmer, database administrator, field engineer, system manager, and network consultant. He joined the Group in June, 2000.

NG Ka Leung, aged 37, is the technical support manager of the Group. He graduated from UM, PRC, with a Bachelor of Science degree in 1994. He has been with the Group since 1995.

SENIOR MANAGEMENT (By alphabetical order) (Continued)

SI I Hong, aged 38, is the senior regional business director of the Group. He graduated from UM, PRC with a Bachelor of Science degree. He joined the Group in 1994. He had working experience in banking and hotel industries before joining the Group.

Wouter Rudolf Karel STEINER, aged 49, is currently the managing director of TCM in charge of the overall operations in the Netherlands, Germany, Spain and Finland. He has over fifteen years of industry knowledge in the provision of value-added services in Europe and has previously held positions responsible for the development of new markets, for example, the United Mexican States, Finland, the Kingdom of Sweden and the Italian Republic, where he has accumulated extensive international experience. He graduated from the Universiteit van Amsterdam, the Netherlands with a major in media and information law.

WANG Qing, aged 36, is the regional business manager of the Group. He graduated from NUPT, PRC with a Bachelor of Science degree in 1992. He joined the Group in 1994. He was an engineer at a telecommunications equipment firm before joining the Group.

WONG Chi Ping, aged 57, is the business development director of the Group. He has over twenty years of experience in the audio and electronic industries in the PRC. Prior to his joining the Group in 1999, he worked for Zetronic for more than ten years responsible for the operation and marketing of voice telecommunications business.

WONG How Yee Roger, aged 47, is the business development director of the Group. He graduated from University of Technology, Sydney, Australia with a Bachelor of Applied Science degree and a Master of Engineering degree in Telecommunications Engineering. He has twenty years of experience in sales and marketing. Prior to his joining the Group in December, 2004, he was the director of business operation of Alcatel Networks (Asia) Limited.

WONG Wai Kan, aged 42, is the senior regional business director of the Group. He graduated from the Jinan University, PRC with a Bachelor of Science degree. He has been with the Group since 1993. He worked in the fields of purchasing and banking before joining the Group.

WU Wenhua, aged 43, is currently the chief executive officer of TSTSH in charge of overall operations, overseeing the sales and marketing, technical development and management of TSTSH. With a doctoral degree from the University of Waterloo, Canada, he has previously worked for international software development corporations, where he has accumulated over thirteen years of product development experience, in particular, development of network management systems for telecommunications service providers. He has established good connections with telecommunications service providers in the PRC.

ZENG Qing Shi, aged 36, is the regional business manager of the Group. He graduated from NUPT, PRC with a Bachelor of Science degree and from Hunan University, PRC with a Master in Business Administration degree. He joined the Group in 1994. He was an engineer at a factory under the Ministry of Aerospace of the Government of PRC before joining the Group.

Report of the Directors

The Directors submit their report together with the audited financial statements for the Year.

Principal activity and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 9 to the financial statements.

An analysis of the performance of the Group for the Year by business and geographical segments is set out in Note 5 to the financial statements.

Results and appropriations

The results of the Group for the Year are set out in the consolidated income statement on page 33.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and of the Company during the Year are set out in Note 20 to the financial statements.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 7 to the financial statements.

Share capital

Details of the share capital of the Company are set out in Note 19 to the financial statements.

Distributable reserves

Distributable reserves of the Company as at 31st December, 2006, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$6,554,000 (2005: HK$51,072,000).

Pre-emptive rights

There is no provision for pre-emptive rights under the Bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to existing Members.

Financial summary of five fiscal periods

A summary of the results and of the assets and liabilities of the Group for the two financial years ended up to 30th June, 2003, the eighteen months ended 31st December, 2004, the year ended 31st December, 2005 and the Year is set out on page 98.

Purchase, sale or redemption of securities

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

Share options

Share options were granted to certain Directors, executives and employees under a share option scheme approved by the Members at a special general meeting on 5th November, 2002. Details of the scheme are as follows:

1. **Purpose**

   The scheme is designed to give executive Directors and any full-time employees in the Company or any of its subsidiaries an equity interest in the Company in order to enhance long-term Member's value. The granting of options will also help the Company to attract and motivate individuals with experience and ability and to reward individuals for past and future performance.

2. **Qualifying participants**

   Any full-time employee including any executive Director and directors of the subsidiaries of the Company.

3. **Maximum number of Shares**

   The total number of Shares available for issue under the scheme as at 31st December, 2006 was 61,381,900, representing 10% of the issued share capital of the Company as at 31st December, 2006.

4. **Maximum entitlement of each qualified participant**

   No option shall be granted to any qualified participant which, if exercised in full, will result in the total number of Shares already issued and issuable to him under the scheme exceeding 30% of the aggregate number of Shares for the time being issued and issuable under the scheme.

5. **Options exercisable period**

   Options shall be exercised in a period of three years commencing on the date on which the option is granted and accepted by the grantee, or expiring on 4th November, 2012, whichever is earlier.

Share options (Continued)

6. Payment on acceptance of option

Pursuant to the scheme, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

7. Basis of determining the exercise price

The exercise price shall be at least the higher of (a) the closing price of Shares on the Exchange as stated in the daily quotation sheet of the Exchange on the date of which options were offered and (b) the average closing price of the Shares as stated in the daily quotation sheets of the Exchange for the five business days immediately preceding the date of which options were offered.

8. Remaining life of the scheme

The scheme will remain valid until 4th November, 2012.

Details of the movement of the share options granted under the scheme during the Year are as follows:

	Number of options						
Name or category of participant	held as at 1st January, 2006	lapsed during the Year	held as at 31st December, 2006	Exercise price HK$	Grant date	Exercisable from	Exercisable until
José Manuel dos Santos	600,000	(600,000)	0	0.42(a)	30th June, 2003	30th June, 2003	29th June, 2006
Yim Hong	900,000	(900,000)	0	0.42(a)	30th June, 2003	30th June, 2003	29th June, 2006
Kuan Kin Man	900,000	(900,000)	0	0.42(a)	30th June, 2003	30th June, 2003	29th June, 2006
Monica Maria Nunes	900,000	(900,000)	0	0.42(a)	30th June, 2003	30th June, 2003	29th June, 2006
Continuous contract employees	9,596,000	(9,596,000)	0	0.42(a)	30th June, 2003	30th June, 2003	29th June, 2006
	12,896,000	(12,896,000)	0				

Note:

(a) As at the date before the options were granted, which was 27th June, 2003, the market value per Share was HK$0.41.

Directors

The Directors during the Year were:

José Manuel dos Santos
Yim Hong
Kuan Kin Man
Monica Maria Nunes
[1] Chui Sai Cheong
[1] Lo King Chiu Charles
[1] Fung Kee Yue Roger

[1] Independent non-executive Directors

In accordance with Article 87 of the Bye-laws, Fung Kee Yue Roger retires by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

To comply with the code provisions of the Code, Kuan Kin Man retires by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

Chui Sai Cheong, Lo King Chiu Charles and Fung Kee Yue Roger are independent non-executive Directors. Fung Kee Yue Roger was re-appointed for a two-year term expiring on 29th September, 2008. Chui Sai Cheong and Lo King Chiu Charles were re-appointed for a two-year term expiring on 13th December, 2008.

Directors' service contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

Details of José Manuel dos Santos' interest in contracts of significance in relation to the business of the Group are set out in Note 35 (a) and (b) to the financial statements.

Save as disclosed herein, no contracts of significance in relation to the business of the Group to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted as at 31st December, 2006 or at any time during the Year.

Biographical details of Directors and senior management

Brief biographical details of Directors and senior management during the Year are set out on pages 10 to 13.

Directors' interests and short positions in the Shares, underlying Shares and debentures of the Company or any Associated Corporation

As at 31st December, 2006, the relevant interests and short positions of the Directors or Chief Executive in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which will be required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 or Part XV of the SFO (including interests and short positions which he took or deemed to have under such provisions of the SFO) or required pursuant to section 352 of the SFO, to be entered in the register referred to therein or required, pursuant to rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

Aggregate long positions in the Shares

Name of Director	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Corporate interest/ founder of a discretionary trust (Note 1)	293,388,000	47.80%
Yim Hong	Personal (Note 2)	7,357,500	1.20%
Kuan Kin Man	Personal (Note 3)	12,262,500	2.00%
Monica Maria Nunes	Personal (Note 4)	2,452,500	0.40%
Fung Kee Yue Roger	Personal (Note 5)	210,000	0.03%

Notes:

1. As at 31st December, 2006, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL, a company wholly-owned by José Manuel dos Santos as trustee of the existing trust whereby the family members of José Manuel dos Santos are the discretionary objects and which assets included a controlling stake of 47.80% of the issued share capital of the Company.

2. The personal interest of Yim Hong comprised 7,357,500 Shares. The aforesaid interest was held by Yim Hong as beneficial owner.

3. The personal interest of Kuan Kin Man comprised 12,262,500 Shares. The aforesaid interest was held by Kuan Kin Man as beneficial owner.

Directors' interests and short positions in the Shares, underlying Shares and debentures of the Company or any Associated Corporation (Continued)

Aggregate long positions in the Shares (Continued)

4. The personal interest of Monica Maria Nunes comprised 2,452,500 Shares. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.

5. The personal interest of Fung Kee Yue Roger comprised 210,000 Shares. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.

Substantial Shareholders' interests and short positions in the Shares and underlying Shares

The register of Substantial Shareholders required to be kept under section 336 of Part XV of the SFO showed that as at 31st December, 2006, the Company was notified of the following Substantial Shareholders' interests, being 5% or more of the issued share capital of the Company. These interests were in addition to those disclosed above in respect of the Directors and Chief Executives:

Aggregate long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
ERL	Corporate interest (Note 1)	293,388,000	47.80%
LRL	Corporate interest (Note 1)	293,388,000	47.80%
Lei Hon Kin (Note 2)	Family interest	293,388,000	47.80%

Notes:

1. As at 31st December, 2006, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL.

2. Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

Major suppliers and customers

The percentages of purchases and sales for the Year attributable to the major suppliers and customers of the Group were as follows:

Purchases	
— the largest supplier	15.34%
— five largest suppliers combined	44.62%
Sales	
— the largest customer	16.13%
— five largest customers combined	24.99%

None of the Directors, their associates or any Member (which to the knowledge of the Directors owns more than 5% of the share capital of the Company) had an interest in the major suppliers or customers noted above.

Connected transactions

Certain related party transactions as disclosed in Note 35 to the financial statements also constituted connected transactions under the GEM Listing Rules, required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules. The following transaction between a connected party (as defined in the GEM Listing Rules) and a subsidiary of the Company was entered into for which relevant announcement had been made by the Company in accordance with the requirements of the GEM Listing Rules.

On 29th December, 2006, a sale and purchase agreement was entered into between the Vendor, VCL and GVDL relating to the acquisition of the Sale Equity for a consideration of RMB500,000 (approximately HK$499,000), which was satisfied by GVDL in cash. The purchaser was GVDL which acquired the Sale Equity from the Vendor. Prior to the completion of the Acquisition, GTVL was owned as to 60% by VCL and 40% by the Vendor. By virtue of its 40% equity interest in GTVL, the Vendor was a Substantial Shareholder in one of the subsidiaries of the Company and therefore a connected person (had the meaning ascribed thereto in the GEM Listing Rules) of the Company and the Acquisition constitutes a connected transaction under the GEM Listing Rules. The Group was positive with the development and roll-out of the resources management application that offered value-added services in the areas of sales, inventory and production management under the BizNavigator programme currently engaged by GTVL. Acquisition of additional equity in GTVL will enable the Group to further participate in the future economic return so generated.

Saved as disclosed above, other significant related party transactions entered by the Group during the Year, which constituted exempted connected transactions under the GEM Listing Rules, were disclosed in Note 35 to the financial statements.

Competing business

None of the Directors or any person who is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Group and which is (or are) able as a practical matter, to direct or influence the management of the Company, had an interest in a business which competes or may compete with the business of the Group.

Auditors

The financial statements were audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

José Manuel dos Santos
Chairman

Macao, 26th March, 2007

Corporate Governance Report

1. Corporate governance practices

The Company has complied with the Code, except that the Chairman of the Board did not attend the annual general meeting held in the Year.

E.1.2. The Chairman of the Board was away on a business trip on the date when the annual general meeting was held.

2. Directors' securities transactions

The Company has adopted rules 5.48 to 5.67 as the code of conduct regarding Directors' securities transactions.

The Company has made specific enquiry of all Directors that they have complied with the required standard of dealings and its code of conduct regarding Directors' securities transactions.

There is no event of non-compliance with the required standard of dealings.

3. Board

The members of the Board were:

Chairman:	José Manuel dos Santos
Executive Directors:	Yim Hong
	Kuan Kin Man
	Monica Maria Nunes
Independent non-executive Directors:	Chui Sai Cheong
	Lo King Chiu Charles
	Fung Kee Yue Roger

Four meetings were held during the Year.

The attendance record of each Director is as follows:

José Manuel dos Santos	4/4
Yim Hong	4/4
Kuan Kin Man	4/4
Monica Maria Nunes	4/4
Chui Sai Cheong	4/4
Lo King Chiu Charles	4/4
Fung Kee Yue Roger	4/4

3. Board (Continued)

Matters reserved for the Board are as follows:

(a) Approval of interim and final financial statements.

(b) Approval of the interim dividend and recommendation of the final dividend.

(c) Approval of any significant changes in accounting policies or practices.

(d) Appointment or removal of the company secretary.

(e) Remuneration of the auditors where, as is usual, Members have delegated this power to the Board and recommendations for the appointment or removal of auditors following recommendations of the Audit Committee.

(f) Resolutions and corresponding documentation to be put forward to Members at a general meeting.

(g) Approval of all circulars and listing particulars.

(h) Approval of press releases concerning matters decided by the Board.

(i) Board appointments and removals and any special terms and conditions attached to the appointment subject to the recommendations of the Nomination Committee and the Remuneration Committee.

(j) Terms of reference of chairman, chief executive and other executive Directors.

(k) Terms of reference and membership of Board committees.

(l) Approval of the long term objectives and commercial strategies of the Group.

(m) Approval of the annual operating and capital expenditure budgets.

(n) Changes relating to the capital structure or its status of the Group.

(o) Appointments to boards of subsidiaries.

(p) Terms and conditions of Directors and senior executives.

(q) Changes to the management and control structure of the Group.

(r) Major capital projects.

(s) Material, either by reason of size or strategy, contracts of the Company or any subsidiary in the ordinary course of business, for example, bank borrowings and acquisition or disposal of fixed assets.

3. Board (Continued)

(t) Contracts of the Company or any subsidiary not in the ordinary course of business, for example, loans and repayments, foreign currency transactions, major acquisitions or disposals.

(u) Major investments.

(v) Risk management strategy.

(w) Treasury policies, including foreign currency exposure.

(x) Review of the overall corporate governance arrangements of the Company.

(y) Major changes in the rules of the Company pension scheme, and changes of trustees and changes in the fund management arrangements.

(z) Major changes in employee share schemes and the allocation of executive share options.

(aa) Formulation of policy regarding charitable donations.

(ab) Political donations.

(ac) Approval of the principal professional advisors of the Company.

(ad) Prosecution, defence or settlement of litigation.

(ae) Internal control arrangements.

(af) Directors' and officers' liability insurance.

Matters not mentioned above will be delegated to the management.

The Company has complied with rules 5.05(1) and (2).

The Company confirmed that it has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to rule 5.09 of the GEM Listing Rules and it still considers the independent non-executive Directors to be independent.

There is no financial, business or other material/relevant relationships among the Directors.

4. Chairman and chief executive officer

Chairman:	José Manuel dos Santos
Chief executive officer:	Yim Hong

The roles of the Chairman and the chief executive officer are segregated and are not exercised by the same individual.

5. Non-executive Directors

Fung Kee Yue Roger was appointed for a two-year term expiring on 29th September, 2008. Chui Sai Cheong and Lo King Chiu Charles were appointed for a two-year term expiring on 13th December, 2008. Each Director's fee is HK$10,000 per month.

6. Remuneration of Directors

The Remuneration Committee is to assist the Board in determining the policy and structure for the remuneration of executive Directors, evaluating the performance of executive Directors, reviewing incentive schemes and Directors' service contracts and fixing the remuneration packages for all Directors and senior management.

The members of the Remuneration Committee were:

José Manuel dos Santos (Chairman)
Chui Sai Cheong
Lo King Chiu Charles
Fung Kee Yue Roger

The executive Directors' service contracts only renewed in the year ended 31st December, 2005 and expired on 11th February, 2007, therefor no meeting was held during the Year.

7. Nomination of Directors

The purpose of the Nomination Committee is to assist, identify, screen and recommend to the Board appropriate candidates to serve as Directors, to oversee the process for evaluating the performance of the Board and to develop, recommend to the Board and monitor nomination guidelines for the Company.

The members of the Nomination Committee were:

José Manuel dos Santos (Chairman)
Chui Sai Cheong
Lo King Chiu Charles
Fung Kee Yue Roger

There is no selection and recommendation of candidates for directorship, and no meeting was held during the Year.

8. Auditors' remuneration

Remuneration of audit is HK$1,850,000 for the Year.

9. Audit Committee

The Audit Committee is to assist the Board to deal with the matters concerning the Auditors, to review the financial information of the Company, and to oversee the financial reporting system and internal control procedures of the Company.

The members of the Audit Committee were:

Chui Sai Cheong (Chairman)
Lo King Chiu Charles
Fung Kee Yue Roger

Four meetings were held during the Year. Record of individual attendance is as follows:

Chui Sai Cheong	4/4
Lo King Chiu Charles	4/4
Fung Kee Yue Roger	4/4

During the Year, the Audit Committee reviewed the financial reports for the Year, for the six months ended 30th June, 2006 and for the quarters ended 31st March, 2006 and 30th September, 2006. The Audit Committee also reviewed and discussed the report of the Auditors to the Audit Committee for the Year and reviewed the Auditors' statutory audit plan for the Year.

The Company established the Audit Committee in compliance with rule 5.28.

10. Other specific disclosures

The Directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with HKFRS and the disclosure requirements of the CO. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Auditors' responsibility is to express an opinion on these consolidated financial statements based on their audit and to report their opinion solely to the Members, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the independent Auditor's report.

The Board has conducted a review of the effectiveness of the system of internal control of the Group.

On behalf of the Board

José Manuel dos Santos
Chairman

Macao, 26th March, 2007

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF VODATEL NETWORKS HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Vodatel Networks Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 30 to 97, which comprise the consolidated and Company balance sheets as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section of section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26th March, 2007

Consolidated Balance Sheet

	Note	2006 HK$'000	2005 HK$'000
		As at 31st December,	
ASSETS			
Non-current assets			
Freehold land	6	**2,020**	2,020
Property, plant and equipment	7	**3,056**	10,567
Intangible assets	8	**—**	58,165
Investments in associates	10	**445**	1,832
Available-for-sale financial assets	11	**15,502**	19,663
Loaned asset	12	**—**	38,597
		21,023	130,844
Current assets			
Inventories	13	**16,145**	18,619
Income tax prepaid		**936**	84
Trade and bills receivables	14	**171,961**	241,911
Other receivables, deposits and prepayments	14	**26,228**	27,817
Loaned asset	12	**38,748**	—
Loans and receivable	15	**—**	774
Other financial assets at fair value through profit or loss	15	**—**	592
Cash and cash equivalents	16	**107,928**	103,054
		361,946	392,851
Non-current assets held for sale	36(a)	**22,856**	—
		384,802	392,851
Current liabilities			
Trade and bills payables	17	**165,151**	183,884
Other payables and accruals	17	**56,194**	79,146
Current income tax liabilities		**45,043**	54,675
Borrowings	18	**35,527**	39,216
		301,915	356,921
Liabilities directly associated with non-current assets classified as held for sale	36(b)	**64,390**	—
		366,305	356,921
Net current assets		**18,497**	35,930
Total assets less current liabilities		**39,520**	166,774

	Note	2006 HK$'000	2005 HK$'000
		As at 31st December,	
Financed by:			
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	19	**159,058**	159,058
Other reserves	20(a)	**24,348**	29,022
Accumulated losses		**(149,442)**	(65,348)
		33,964	122,732
Minority interest		**5,556**	9,032
Total equity		**39,520**	131,764
LIABILITIES			
Non-current liabilities			
Borrowings	18	**—**	35,010
Total assets less current liabilities		**39,520**	166,774

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

The notes on pages 36 to 97 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	2006 HK$'000	2005 HK$'000
		As at 31st December,	
ASSETS			
Non-current assets			
Investments in subsidiaries	9(a)	**42,586**	73,918
Current assets			
Amounts due from subsidiaries	9(b)	**129,961**	141,177
Other receivables, deposits and prepayments	14	**271**	265
Cash and cash equivalents	16	**336**	236
		130,568	141,678
Current liabilities			
Amounts due to subsidiaries	9(b)	**3,182**	1,842
Other payables and accruals	17	**3,658**	2,922
		6,840	4,764
Net current assets		**123,728**	136,914
Total assets less current liabilities		**166,314**	210,832
Financed by:			
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	19	**159,058**	159,058
Other reserves	20(b)	**7,256**	51,774
Total equity		**166,314**	210,832

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

The notes on pages 36 to 97 are an integral part of these consolidated financial statements.

Consolidated Income Statement

For the year ended 31st December

	Note	2006 HK$'000	2005 HK$'000 (restated)
Continuing operations			
Revenue	5	**436,720**	462,225
Cost of sales	22	**(380,057)**	(407,528)
Gross profit		**56,663**	54,697
Selling and marketing costs	22	**(7,752)**	(8,163)
Administrative expenses	22	**(71,691)**	(73,903)
Other (losses)/gains - net	23	**(387)**	2,562
Operating loss		**(23,167)**	(24,807)
Impairment of goodwill		**(837)**	—
Finance income	25	**2,679**	3,440
Finance costs	25	**(1,217)**	(5,774)
Finance income/(costs) - net	25	**1,462**	(2,334)
Share of (losses)/gains of associates	10	**(257)**	202
Loss before income tax		**(22,799)**	(26,939)
Income tax credit/(expense)	26	**8,322**	(1,933)
Loss for the Year from continuing operations		**(14,477)**	(28,872)
Discontinued operations			
Loss for the Year from discontinued operations	36(c)	**(71,181)**	(11,676)
Loss for the Year		**(85,658)**	(40,548)
Attributable to:			
Equity holders of the Company		**(84,094)**	(37,488)
Minority interest		**(1,564)**	(3,060)
		(85,658)	(40,548)
Loss per Share for loss from continuing operations attributable to the equity holders of the Company during the Year (expressed in HK cents)			
- basic	29(a)	**2.33**	4.98
- diluted	29(b)	**Not applicable**	Not applicable
Loss per Share for loss from discontinued operations attributable to the equity holders of the Company during the Year (expressed in HK cents)			
- basic	29(a)	**11.37**	1.13
- diluted	29(b)	**Not applicable**	Not applicable
Loss per Share for loss attributable to the equity holders of the Company during the Year (expressed in HK cents)			
- basic	29(a)	**13.70**	6.11
- diluted	29(b)	**Not applicable**	Not applicable
Dividends	30	**—**	—

The notes on pages 36 to 97 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company					
		Share capital	Other reserves	Accumulated losses	Total	Minority interest	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance as at 1st January, 2005	20(a)	159,058	42,642	(27,860)	173,840	12,092	185,932
Fair value loss for available-for-sale financial assets	20(a)	—	(10,238)	—	(10,238)	—	(10,238)
Reserves transferred to income statement upon disposal of available-for-sale financial assets	20(a)	—	(596)	—	(596)	—	(596)
Currency translation differences	20(a)	—	(2,786)	—	(2,786)	—	(2,786)
Net expense recognised directly in equity		—	(13,620)	—	(13,620)	—	(13,620)
Loss for the year ended 31st December, 2005		—	—	(37,488)	(37,488)	(3,060)	(40,548)
Total recognised income and expense for the year ended 31st December, 2005		—	(13,620)	(37,488)	(51,108)	(3,060)	(54,168)
Balance as at 31st December, 2005		159,058	29,022	(65,348)	122,732	9,032	131,764
Balance as at 1st January, 2006		159,058	29,022	(65,348)	122,732	9,032	131,764
Fair value loss for available-for-sale financial assets	20(a)	—	(4,010)	—	(4,010)	—	(4,010)
Currency translation differences	20(a)	—	(664)	—	(664)	—	(664)
Net expense recognised directly in equity		—	(4,674)	—	(4,674)	—	(4,674)
Loss for the Year		—	—	(84,094)	(84,094)	(1,564)	(85,658)
Total recognised income and expense for the Year		—	(4,674)	(84,094)	(88,768)	(1,564)	(90,332)
Disposal of MIHL	37	—	—	—	—	(1,430)	(1,430)
Minority interest arising on the acquisition of interests in GTVL	38	—	—	—	—	(482)	(482)
Balance as at 31st December, 2006		159,058	24,348	(149,442)	33,964	5,556	39,520

The notes on pages 36 to 97 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Cash generated from operations	31	**35,983**	9,494
Interest paid		**(2,373)**	(7,511)
Income tax refund		**462**	—
Income tax paid		**(2,329)**	(1,238)
Net cash generated from operating activities		**31,743**	745
Cash flows from investing activities			
Acquisition of additional interests in a subsidiary	38	**(499)**	—
Disposal of a subsidiary, net of cash disposed	37	**2,287**	—
Purchase of property, plant and equipment	7	**(1,382)**	(4,286)
Purchase of intangible assets	8	**(185)**	(428)
Proceeds from sale of property, plant and equipment	31	**1,842**	—
Proceeds from sale of an associate	10	**499**	—
Proceeds from sale of available-for-sale financial assets		**—**	5,599
Cash received upon maturity of convertible bond		**800**	—
Interest received		**2,714**	3,411
Dividend received		**—**	9
Net cash generated from investing activities		**6,076**	4,305
Cash flows from financing activities			
Proceeds from borrowings		**761**	56,347
Repayments of borrowings		**(33,173)**	(127,338)
Net cash used in financing activities		**(32,412)**	(70,991)
Net increase/(decrease) in cash and bank overdrafts		**5,407**	(65,941)
Cash and bank overdrafts at beginning of the Year		**102,652**	168,593
Cash and bank overdrafts at end of the Year		**108,059**	102,652
Analysis of balances of cash and bank overdrafts			
Cash and cash equivalents and bank overdrafts	16	**107,411**	102,652
Cash and bank overdrafts classified as non-current assets held for sale	36	**648**	—
		108,059	102,652

The notes on pages 36 to 97 are an integral part of these consolidated financial statements.

1 General information

The Group carried the vision to deliver high quality solutions to customers allowing them to manage their businesses and reach out for infotainment services, anywhere and anytime. The Group principally engaged in the provision of network and system infrastructure, enterprise solutions and multimedia value-added services.

The Group provided integrated services in network and system infrastructure ranging from network and system planning, design and provision of network equipment and software, installation and implementation to maintenance and technical support for public telecommunications service providers, such as China Telecom, China Netcom, China Unicom and China Mobile, and enterprises in selected vertical markets in Mainland China and Macao, such as gaming operators, cable TV operators, electricity bureaus and governmental authorities.

The Group was also engaged in the provision of multimedia value-added services in the Asia Pacific Region and Europe, offering mobile and fixed line services such as content and campaign management, distribution and billing via a number of platforms including IVR, interactive internet solutions and premium SMS.

Headquartered in Macao, the Group enjoyed a leadership position in Macao and sought to further expand its penetration into the global market.

The Company was a limited liability company incorporated in Bermuda. The address of its registered office was Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company is listed on GEM.

This set of consolidated financial statements is presented in thousands of HK$ (HK$'000), unless otherwise stated. This set of consolidated financial statements is approved for issue by the Board on 26th March, 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies were consistently applied to the years presented, unless otherwise stated.

(a) 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 loaned asset.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates were significant to the consolidated financial statements, are disclosed in Note 4.

(i) *Amendments to published standards effective in the Year*

- **HKAS 39 and HKFRS 4 Amendment - Financial Guarantee Contracts.** This amendment required issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. The Group has assessed the financial impact arising from the adoption of this amendment and concluded that the financial impact was insignificant.

(ii) *Interpretations to existing standards that were not yet effective and were not early adopted by the Group*

The following interpretations to existing standards were published that would be mandatory for the accounting periods of the Group beginning on or after 1st January, 2006 or later periods that the Group had not early adopted:

- **HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective for annual periods beginning on or after 1st January, 2007),** would introduce new disclosures relating to financial instruments. The Group would apply HKFRS 7 and the amendment to HKAS 1 from annual period beginning 1st January, 2007;

- **HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May, 2006).** HK(IFRIC)-Int 8 would require consideration of transactions involving the issue of equity instruments - where the identifiable consideration received would be less than the fair value of the equity instruments issued - to establish whether or not they would fall within the scope of HKFRS 2. The Group would apply HK(IFRIC)-Int 8 from 1st January, 2007, but was not expected to have any impact on the consolidated financial statements of the Group; and

- **HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November, 2006).** HK(IFRIC)-Int 10 would prohibit the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group would apply HK(IFRIC)-Int 10 from 1st January, 2007, but was not expected to have any impact on the consolidated financial statements of the Group.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iii) *Interpretations to existing standards that were not yet effective and not relevant for the operations of the Group*

The following interpretations to existing standards were published that would be mandatory for the accounting periods of the Group beginning on or after 1st March, 2006 or later periods but would not be relevant for the operations of the Group:

- **HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1st March, 2006).** HK(IFRIC)-Int 7 would provide guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity would identify the existence of hyperinflation in the economy of its Functional Currency, when the economy was not hyperinflationary in the prior period. As none of the entities in the Group had a currency of a hyperinflationary economy as its Functional Currency, HK(IFRIC)-Int 7 would not be relevant to the operations of the Group; and

- **HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1st June, 2006).** HK(IFRIC)-Int 9 would require an entity to assess whether an embedded derivative would be required to be separated from the host contract and accounted for as a derivative when the entity would first become a party to the contract. Subsequent reassessment would be prohibited unless there would be a change in the terms of the contract that would significantly modify the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the entities in the Group would change the terms of their contracts, HK(IFRIC)-Int 9 would not be relevant to the operations of the Group.

(iv) *Standards, amendments and interpretations effective in the Year but not relevant for the operations of the Group*

The following standards, amendments and interpretations were mandatory for accounting periods beginning on or after 1st January, 2006 but were not relevant to the operations of the Group:

- HKAS 19 Amendment - Employee Benefits;
- HKAS 21 Amendment - Net Investment in a Foreign Operation;
- HKAS 39 Amendment - Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment - The Fair Value Option;
- HKFRS 1 Amendment - First-time Adoption of Hong Kong Financial Reporting Standards;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

2 Summary of significant accounting policies (Continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

(i) *Subsidiaries*

Subsidiaries were all entities over which the Group had the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that were currently exercisable or convertible were considered when assessing whether the Group controlled another entity.

Subsidiaries were fully consolidated from the date on which control was transferred to the Group. They were de-consolidated from the date that control ceased.

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition was measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the identifiable net assets acquired by the Group was recorded as goodwill (Note 2(f)(i)). If the cost of acquisition was less than the fair value of the net assets of the subsidiary acquired, the difference was recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies were eliminated. Unrealised losses were also eliminated unless the transaction provided evidence of an impairment of the asset transferred. Accounting policies of subsidiaries were changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, investments in subsidiaries were stated at cost less provision for impairment losses (Note 2(g)). The results of subsidiaries were accounted for by the Company on the basis of dividend received and receivable.

(ii) *Transactions with minority interests*

The Group applied a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests resulted in gains and losses for the Group that were recorded in the consolidated income statement. Purchases from minority interests resulted in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(iii) *Associates*

Associates were all entities over which the Group had significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates were accounted for using the equity method of accounting and were initially recognised at cost. The investment in associates of the Group included goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2(f)(i)).

The share of post-acquisition profits or losses of the associates of the Group was recognised in the income statement, and its share of post-acquisition movements in reserves was recognised in reserves. The cumulative post-acquisition movements were adjusted against the carrying amount of the investment. When the share of losses in an associate of the Group equaled or exceeded its interest in the associate, including any other unsecured receivables, the Group did not recognise further losses, unless it had incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates were eliminated to the extent of the interest in the associates of the Group. Unrealised losses were also eliminated unless the transaction provided evidence of an impairment of the asset transferred. Accounting policies of associates were changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, investments in associates were stated at cost less provision for impairment losses (Note 2(g)). The results of associates were accounted for by the Company on the basis of dividend received and receivable.

(c) Segment reporting

A business segment was a group of assets and operations engaged in providing products or services that were subject to risks and returns that were different from those of other business segments. A geographical segment was engaged in providing products or services within a particular economic environment that were subject to risks and returns that were different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) *Functional Currency and presentation currency*

Items included in the financial statements of each of the entities of the Group were measured using the Functional Currency. The consolidated financial statements were presented in HK$, which was the Functional Currency and presentation currency of the Company.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation (Continued)

(ii) *Transactions and balances*

Foreign currency transactions were translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies were recognised in the consolidated income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale were analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to the changes in amortised cost were recognised in profit or loss, and other changes in the carrying amount were recognised in equity.

Translation differences on non-monetary financial assets and liabilities were reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss were recognised in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale were included in the available-for-sale reserve in equity.

(iii) *Group companies*

The results and financial position of all the entities in the Group (none of which had the currency of a hyperinflationary economy) that had a Functional Currency different from the presentation currency were translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented were translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement were translated at average exchange rates (unless this average was not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses were translated at the dates of the transactions); and

— all resulting exchange differences were recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, were taken to the equity of the Members. When a foreign operation was partially disposed of or sold, exchange differences that were recorded in equity were recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity were treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Summary of significant accounting policies (Continued)

(e) Freehold land, property, plant and equipment

Freehold land was stated at cost less impairment as the land had an indefinite useful life and was not subject to depreciation.

Property, plant and equipment were stated at historical cost less depreciation. Historical cost included expenditure that was directly attributable to the acquisition of the items.

Subsequent costs were included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it was probable that future economic benefits associated with the item would flow to the Group and the cost of the item could be measured reliably. The carrying amount of the replaced part was derecognised. All other repairs and maintenance were charged in the income statement during the financial period in which they were incurred.

Depreciation on other assets was calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

– Building	20 years
– Leasehold improvements	5 years or over the lease terms, whichever is shorter
– Furniture, fixtures, office equipment and leased equipment	2 - 5 years
– Motor vehicles	5 years
– Demonstration equipment	3 years

The residual values and useful lives of the assets were reviewed, and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset was written down immediately to its recoverable amount if the carrying amount of the asset was greater than its estimated recoverable amount (Note 2(g)).

Gains and losses on disposals were determined by comparing proceeds with the carrying amount and were recognised within administrative expenses, in the income statement. When revalued assets were sold, the amounts included in other reserves were transferred to accumulated losses.

2 Summary of significant accounting policies (Continued)

(f) Intangible assets

(i) *Goodwill*

Goodwill represented the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets of the acquired subsidiary and associate of the Group at the date of acquisition. Goodwill on acquisitions of subsidiaries was included in intangible assets. Goodwill on acquisitions of associates was included in investments in associates and was tested annually for impairment as part of the overall balance. Separately recognised goodwill was tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill were not reversed. Gains and losses on the disposal of an entity included the carrying amount of goodwill relating to the entity sold.

Goodwill was allocated to CGU for the purpose of impairment testing. The allocation was made to those CGU or groups of CGU that were expected to benefit from the business combination in which the goodwill arose. The Group allocated goodwill to each business segment in each country in which it operated (Note 2(g)).

(ii) *Computer software*

Acquired computer software licences were capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs were amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes were recognised as an expense incurred. Costs that were directly associated with the development of identifiable and unique software products controlled by the Group, and that would probably generate economic benefits exceeding costs beyond one year, were recognised as intangible assets. Costs included the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets were amortised over their estimated useful lives (not exceeding five years).

(g) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that had an indefinite useful life or had not yet been available for use were not subject to amortisation and were tested annually for impairment. Assets that were subject to amortisation were reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount might not be recoverable. An impairment loss was recognised for the amount by which the carrying amount of the asset exceeded its recoverable amount. The recoverable amount was the higher of the fair value less costs to sell and value in use of an asset. For the purpose of assessing impairment, assets were grouped at the lowest levels for which there were separately identifiable cash flows (CGU). Assets other than goodwill that suffered impairment were reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (Continued)

(h) Financial assets

The Group classified its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss were held for trading. A financial asset was classified in this category if acquired principally for the purpose of selling in the short term.

(ii) *Loans and receivable*

Loans and receivable were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were included in current assets, except for maturities greater than twelve months after the balance sheet date. These were classified as non-current assets. Loans and receivable were classified as loans and receivable, trade, bills and other receivables in the balance sheet (Note 2(j)).

(iii) *Available-for-sale financial assets*

Available-for-sale financial assets were non-derivatives that were either designated in this category or not classified in any of the other categories. They were included in non-current assets unless management intended to dispose of the investment within twelve months of the balance sheet date.

Regular purchases and sale of financial assets were recognised on trade-date - the date on which the Group committed to purchase or sell the asset. Investments were initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss were initially recognised at fair value, and transaction costs were expensed in the income statement. Financial assets were derecognised when the rights to receive cash flows from the investments expired or were transferred and the Group had transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss were subsequently carried at fair value. Loans and receivable were carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category were presented in the income statement within other gains - net, in the period in which they arose.

2 Summary of significant accounting policies (Continued)

(h) Financial assets (Continued)

(iii) *Available-for-sale financial assets (Continued)*

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale were analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities were recognised in profit or loss and translation differences on non-monetary securities were recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale were recognised in equity.

When securities classified as available-for-sale were sold or impaired, the accumulated fair value adjustments recognised in equity were included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method was recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments were recognised in the income statement as part of other income when the right of the Group to receive payments was established.

The fair values of quoted investments were based on current bid prices. Available-for-sale financial assets that were not quoted in an active market were measured at cost less impairment.

The Group assessed at each balance sheet date whether there was objective evidence that a financial asset or a group of financial assets was impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered as an indicator that the securities were impaired. If any such evidence existed for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - was removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments were not reversed through the consolidated income statement. Impairment testing of trade receivables was described in Note 2(j).

(iv) *Loaned asset*

Loaned asset was classified as part of the available-for-sale financial assets. Accounting policies on loaned asset was described in Note 2(h) (iii).

(i) Inventories

Inventories were stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprised invoiced cost of inventories. Net realisable value was the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 Summary of significant accounting policies (Continued)

(j) Trade, bills and other receivables

Trade and other receivables were recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade, bills and other receivables was established when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor would enter bankruptcy or financial reorganisation, and default or delinquency in payments were considered indicators that the trade receivable was impaired. The amount of the provision was the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the asset. The carrying amount of the assets was reduced through the use of an allowance account, and the amount of the loss was recognised in the consolidated income statement within administrative expenses. When a trade receivable was uncollectible, it was written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off were credited against administrative expenses in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents included cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts were shown within borrowings in current liabilities on the balance sheet.

(l) Share capital

Shares were classified as equity.

Incremental costs directly attributable to the issue of new Shares or options were shown in equity as a deduction, net of tax, from the proceeds.

(m) Trade and bills payables

Trade and bills payables were recognised initially at fair value and subsequently measured at amoritsed cost using the effective interest method.

(n) Borrowings

Borrowings were recognised initially at fair value, net of transaction costs incurred. Borrowings were subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value was recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings were classified as current liabilities unless the Group had an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2 Summary of significant accounting policies (Continued)

(o) Deferred income tax

Deferred income tax was provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax was not accounted for if it arose from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affected neither accounting nor taxable profit or loss. Deferred income tax was determined using tax rates (and laws) that were enacted or substantially enacted by the balance sheet date and were expected to apply when the related deferred income tax asset was realised or the deferred income tax liability was settled.

Deferred income tax assets were recognised to the extent that it was probable that future taxable profit would be available against which the temporary differences could be utilised.

Deferred income tax was provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference was controlled by the Group and it was probable that the temporary difference would not be reversed in the foreseeable future.

(p) Employee benefits

(i) *Pension obligations*

Group companies operated various defined contribution pension schemes. The schemes were generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan was a pension plan under which the Group paid contributions into a separate entity. The Group had no legal nor constructive obligations to pay further contributions if the fund did not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group paid contributions to publicly or privately administered pension insurance plans for defined contribution plans on a mandatory, contractual or voluntary basis. The Group had no further payment obligations once the contributions were paid. The contributions were recognised as employee benefit expense when they were due. Prepaid contribution was recognised as an asset to the extent that a cash refund or a reduction in the future payments was available.

2 Summary of significant accounting policies (Continued)

(p) Employee benefits (Continued)

(ii) *Share-based compensation*

The Group operated an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options was recognised as an expense. The total amount to be expensed over the vesting period was determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions were included in assumptions about the number of options that were expected to vest. At each balance sheet date, the entity revised its estimates of the number of options that were expected to vest. It recognised the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs were credited to share capital (nominal value) and share premium when the options were exercised.

(iii) *Termination benefits*

Termination benefits were payable when employment was terminated by the Group before the normal retirement date, or whenever an employee accepted voluntary redundancy in exchange for these benefits. The Group recognised termination benefits when it was demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after balance sheet date were discounted to present value.

(iv) *Profit-sharing and bonus plan*

The Group recognised a liability and an expense for bonuses and profit-sharing, based on a formula that took into consideration the profit attributable to the Members after certain adjustments. The Group recognised a provision where contractually obliged or where there was a past practice that had created a constructive obligation.

2 Summary of significant accounting policies (Continued)

(q) Provisions

Provisions were recognised when the Group had a present legal or constructive obligation as a result of past events. It was probable that an outflow of resources would be required to settle the obligation and the amount was reliably estimated. Provisions were not recognised for future operating losses.

Where there were a number of similar obligations, the likelihood that an outflow would be required in settlement was determined by considering the class of obligations as a whole. A provision was recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

Provisions were measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflected current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time was recognised as interest expense.

(r) Revenue recognition

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 the revenue could be reliably measured and 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.

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

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

2 Summary of significant accounting policies (Continued)

(r) Revenue recognition (Continued)

(ii) *Sale of mobile phones - wholesale*

The Group sold a range of mobile phones in the wholesale market. Sale of goods were recognised when a group entity delivered products to the wholesaler. The wholesaler had full discretion over the channel and price to sell the products, and there was no unfulfilled obligation that could affect the acceptance of the products by the wholesaler. Delivery did not occur until the products were shipped to the specified location, the risks of obsolescence and loss were transferred to the wholesaler, and either the wholesaler had accepted the products in accordance with sales contract, the acceptance provisions lapsed, or the Group had objective evidences that all criteria for acceptance were satisfied.

Customers had a right to return faulty products in the wholesale market. Sales were recorded based on the price specified in the sales contracts, net of the estimated returns, at the time of sale. No element of financing was deemed present as the sales were made with a credit term of less than one month, which was consistent with the market practice.

(iii) *Sale of mobile phones - retail*

The Group operated a retail outlet for selling mobile phones. Sale of goods was recognised when a group entity delivered a product to the customer. Retail sales were usually in cash.

It was the policy of the Group to sell its products to the end customer with a right of return within one week. The Group did not operate any loyalty programme.

(iv) *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.

(v) *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.

2 Summary of significant accounting policies (Continued)

(r) Revenue recognition (Continued)

(vi) *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.

(vii) *Dividend income*

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

(viii) *Operating lease rental income*

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

(s) Operating lease

Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease.

Equipment leased out under operating leases was included in property, plant and equipment in the balance sheet. They were depreciated over their expected useful lives on a basis consistent with similar owned equipment. Lease income (net of any incentive given to lessee) was recognised over the term of the lease on a straight-line basis.

2 Summary of significant accounting policies (Continued)

(t) Borrowing costs

Borrowing costs were charged to the income statement in the year in which they were incurred.

(u) Contingent liabilities and contingent assets

A contingent liability was a possible obligation that arose from past events and whose existence would only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It could also be a present obligation arising from past events that was not recognised because it was not probable that outflow of economic resources would be required or the amount of obligation could not be measured reliably.

A contingent liability was not recognised but was disclosed in the notes to the financial statements. When a change in the probability of an outflow occurred so that the outflow was probable, it would then be recognised as a provision.

A contingent asset was a possible asset that arose from past events and whose existence would be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

A contingent asset was not recognised but was disclosed in the notes to the financial statements when an inflow of economic benefits was probable. When inflow was virtually certain, an asset was recognised.

(v) Non-current assets held for sale and discontinued operations

Non-current assets were classified as non-current assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amounts were recovered principally through a sale transaction rather than through a continuing use.

Certain comparative figures were restated for the impact of the discontinued operations as set out in Note 36.

3 Financial risk management

(a) Financial risk factors

The activities of the Group exposed it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The overall risk management programme of the Group focused on the unpredictability of financial markets and sought to minimise potential adverse effects on the financial performance of the Group.

Risk management was carried out by the Directors. The Directors identified and evaluated financial risks in close co-operation with the operating units of the Group.

(i) *Market risk*

– Foreign exchange risk

The Group operated internationally and was exposed to foreign exchange risk arising from various currency exposures, primarily with respect to HK$ and €. Foreign exchange risk arose from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group had certain investments in foreign operations, whose net assets were exposed to foreign currency translation risk. Currency exposure arising from the net assets of the foreign operations of the Group was managed primarily through borrowings denominated in the relevant foreign currencies to endeavour a natural hedge.

– Price risk

The Group was exposed to equity securities price risk because certain investments held by the Group were classified on the consolidated balance sheet as available-for-sale financial assets. The Group was not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversified its portfolio. Diversification of the portfolio was done in accordance with the limits set by the Group.

– Cash flow and fair value interest rate risk

As the Group had no significant interest-bearing assets, the income and operating cash flows of the Group were substantially independent of changes in market interest rates.

The interest rate risk of the Group arose from borrowings. Borrowings issued at variable rates exposed the Group to cash flow interest rate risk. Borrowings at fixed rates exposed the Group to fair value interest rate risk. During the Year and 2005, the borrowings of the Group at variable rates were denominated in MOP and €. The Group endeavoured to maintain the borrowings on a relatively short term basis which would be refinanced when considered appropriate.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(ii) *Credit risk*

Credit risk was managed on a group basis. Credit risk arose from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. Directors assessed the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits were set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits was regularly monitored. Sales to retail customers were settled in cash.

(iii) *Liquidity risk*

Prudent liquidity risk management included maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Directors maintained flexibility in funding by maintaining availability of funding under committed credit lines.

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for-sale securities) was based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group was the current bid price.

Available-for-sale financial assets that were not quoted in an active market were measured at cost less impairment.

The carrying value less impairment provision of trade receivables and payables was a reasonable approximation to their fair values. The fair value of financial liabilities for disclosure purpose was estimated by discounting the future contractual cash flows at the current market interest rate that was available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements were continuously evaluated and were based on historical experience and other factors, including expectations of future events that were believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group made estimates and assumptions concerning the future. The resulting accounting estimates would, by definition, seldom equal the related actual results. The estimates and assumptions that had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Estimated impairment of goodwill*

The Group tested annually whether goodwill had suffered any impairment in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of CGU were determined based on value-in-use calculations. These calculations required the use of estimates (Note 8).

(ii) *Income taxes*

The Group was subject to income taxes in numerous jurisdictions. Significant judgement was required in determining the worldwide provision for income taxes. There were many transactions and calculations for which the ultimate tax determination was uncertain during the ordinary course of business. The Group recognised liabilities for anticipated tax audit issues based on estimates of whether additional taxes would be due. Where the final tax outcome of these matters was different from the amounts that were initially recorded, such differences would impact the income tax and deferred tax provisions in the period in which such determination was made.

(b) Critical judgement in applying the accounting policies of the entity

Impairment of financial assets

The Group followed the guidance of HKAS 39 in determining when an available-for-sale financial asset was impaired. This determination required significant judgement. In making this judgement, the Group evaluated, among other factors, the duration and extent to which the fair value of an investment was less than its cost; and the financial health of and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

5 Segment information

(a) Primary reporting format - business segments

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

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

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

– Provision of digital image processing management solutions.

With the increase in sale of mobile phones during the Year, sale of mobile phones qualified as a separate segment and the 2005 comparatives were restated.

On 13th June, 2006, the Group disposed of the segment of provision for digital image processing management solutions (Note 37). On 24th November, 2006, the Group determined to dispose of the operations relating to the provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS, and was expected to sell the entire operation in 2007 (Note 36).

As a result, as at 31st December, 2006, the Group was organised into two main segments:

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

– Sale of mobile phones.

5 Segment information (Continued)

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

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 goods HK$'000	Sale of mobile phones HK$'000	Unallocated HK$'000	Total HK$'000	Provision of digital image processing management solutions HK$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK$'000	Total HK$'000
Revenue	379,751	56,969	—	436,720	25,381	74,358	99,739
Operating loss	(11,351)	(2,047)	(9,769)	(23,167)	(3,484)	(14,312)	(17,796)
Impairment of goodwill	(837)	—	—	(837)	—	(60,212)	(60,212)
Gain on disposal of subsidiaries	—	—	—	—	8,137	—	8,137
Finance income				2,679			61
Finance costs				(1,217)			(1,156)
Finance income/(costs) - net (Note 25)				1,462			(1,095)
Share of loss of associates (Note 10)				(257)			—
Loss before income tax				(22,799)			(70,966)
Income tax credit/(expense) (Note 26)				8,322			(215)
Loss for the Year				(14,477)			(71,181)

5 Segment information (Continued)

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

The segment results for the year ended 31st December, 2005 were as follows:

	Continuing operations				Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK$'000	Sale of mobile phones HK$'000	Unallocated HK$'000	Total HK$'000	Provision of digital image processing management solutions HK$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK$'000	Total HK$'000
Revenue	408,551	53,674	–	462,225	48,050	85,156	133,206
Operating loss	(2,548)	(2,180)	(20,079)	(24,807)	(7,850)	(1,222)	(9,072)
Impairment of goodwill	–	–	–	–	(512)	–	(512)
Finance income				3,440			131
Finance costs				(5,774)			(1,737)
Finance costs - net (Note 25)				(2,334)			(1,606)
Share of profit of associates (Note 10)				202			–
Loss before income tax				(26,939)			(11,190)
Income tax expense (Note 26)				(1,933)			(486)
Loss for the year ended 31st December, 2005				(28,872)			(11,676)

5 Segment information (Continued)

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

Other segment items included in the income statements were as follows:

	Continuing operations			Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK$'000	Sale of mobile phones HK$'000	Total HK$'000	Provision of digital image processing management solutions HK$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK$'000	Total HK$'000
Year						
Depreciation	3,750	239	3,989	308	1,022	1,330
Amortisation	—	—	—	—	597	597
Impairment of goodwill	837	—	837	—	60,212	60,212
Impairment of software licence	—	—	—	—	293	293
Impairment of trade receivables	3,224	494	3,718	—	3,591	3,591
Provision for inventories	—	—	—	109	—	109
Year ended 31st December, 2005						
Depreciation	4,463	211	4,674	598	1,758	2,356
Amortisation	—	—	—	—	648	648
Impairment of goodwill	—	—	—	512	—	512
Impairment of software licence	—	—	—	78	—	78
Impairment of trade receivables	6,963	17	6,980	—	360	360
Provision for inventories	7,337	17	7,354	—	—	—

5 Segment information (Continued)

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

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

Segment assets consisted primarily of freehold land, property, plant and equipment, intangible assets, inventories, receivables, cash and cash equivalents. Unallocated assets comprised available-for-sale financial assets, loaned asset, loans and receivable and other financial assets at fair value through profit or loss.

Segment liabilities comprised operating liabilities. Unallocated liabilities comprised borrowings.

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

The segment assets and liabilities as at 31st December, 2006 and capital expenditure for the Year are as follows:

	Continuing operations				Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK$'000	Sale of mobile phones HK$'000	Unallocated HK$'000	Total HK$'000	Provision of digital image processing management solutions HK$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK$'000	Total HK$'000
Assets	362,577	4,426	15,521	382,524	—	22,856	22,856
Associates	445	—	—	445	—	—	—
Total assets	363,022	4,426	15,521	382,969	—	22,856	22,856
Liabilities	297,084	1,158	3,673	301,915	—	64,390	64,390
Capital expenditure	668	—	—	668	57	859	916

5 Segment information (Continued)

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

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

	Continuing operations				Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Sale of mobile phones	Unallocated	Total	Provision of digital image processing management solutions	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets	335,662	5,512	60,154	401,328	28,448	92,087	120,535
Associates	1,818	—	—	1,818	14	—	14
Total assets	337,480	5,512	60,154	403,146	28,462	92,087	120,549
Liabilities	273,196	1,275	37,926	312,397	20,678	58,856	79,534
Capital expenditure	1,074	—	—	1,074	593	3,048	3,641

5 Segment information (Continued)

(b) Secondary reporting format - geographical segments

The four 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 Hong Kong and Macao and Europe for the Year.

Revenue

	2006 HK$'000	2005 HK$'000
Continuing operations		
Mainland China	**157,900**	215,086
Hong Kong and Macao	**278,820**	247,139
	436,720	462,225
Discontinued operations		
Mainland China	**562**	2,773
Hong Kong and Macao	**24,819**	45,277
Europe	**74,358**	85,156
	99,739	133,206

Revenue was allocated based on the places in which customers were located.

Total assets

	2006 HK$'000	2005 HK$'000
Continuing operations		
Mainland China	**106,889**	100,969
Hong Kong and Macao	**260,114**	268,653
Europe	**—**	92,087
	367,003	461,709
Associates (Note 10)	**445**	1,832
Unallocated assets	**15,521**	60,154
	382,969	523,695
Discontinued operations		
Europe	**22,856**	—

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

5 Segment information (Continued)

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

Capital expenditure

	2006 HK$'000	2005 HK$'000 (restated)
Continuing operations		
Mainland China	**324**	210
Hong Kong and Macao	**344**	864
	668	1,074
Discontinued operations		
Hong Kong and Macao	**57**	593
Europe	**859**	3,048
	916	3,641

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

6 Freehold land - Group

Freehold land was located in Macao and carried at cost.

7 Property, plant and equipment - Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures, office equipment and leased equipment HK$'000	Motor vehicles HK$'000	Demonstration equipment HK$'000	Total HK$'000
As at 1st January , 2005						
Cost	280	5,040	57,309	2,895	491	66,015
Accumulated depreciation	(38)	(2,853)	(47,120)	(2,078)	(291)	(52,380)
Net book amount	242	2,187	10,189	817	200	13,635
Year ended 31st December, 2005						
Opening net book amount	242	2,187	10,189	817	200	13,635
Exchange differences	—	—	(298)	(26)	—	(324)
Additions	—	773	2,684	829	—	4,286
Depreciation for continuing operations (Note 22)	19	(708)	(3,569)	(290)	(126)	(4,674)
Depreciation for discontinued operations	—	(303)	(1,969)	(84)	—	(2,356)
Closing net book amount	261	1,949	7,037	1,246	74	10,567
As at 31st December, 2005						
Cost	280	5,569	51,751	3,435	491	61,526
Accumulated depreciation	(19)	(3,620)	(44,714)	(2,189)	(417)	(50,959)
Net book amount	261	1,949	7,037	1,246	74	10,567
Year						
Opening net book amount	261	1,949	7,037	1,246	74	10,567
Exchange differences	—	—	240	100	—	340
Additions	—	66	978	338	—	1,382
Disposal of subsidiaries (Note 37)	—	(662)	(377)	—	(34)	(1,073)
Disposals	—	—	(38)	(286)	—	(324)
Depreciation for continuing operations (Note 22)	(14)	(773)	(2,975)	(220)	(7)	(3,989)
Depreciation for discontinued operations	—	(156)	(1,112)	(29)	(33)	(1,330)
Less: included in non-current assets held for sale (Note 36)	—	—	(1,641)	(876)	—	(2,517)
Closing net book amount	247	424	2,112	273	—	3,056
As at 31st December, 2006						
Cost	280	2,617	16,193	2,406	281	21,777
Accumulated depreciation	(33)	(2,193)	(14,081)	(2,133)	(281)	(18,721)
Net book amount	247	424	2,112	273	—	3,056

7 Property, plant and equipment - Group (Continued)

Depreciation expense was incurred in administrative expenses.

The Group leased out equipment to a lessee under an agreement which would terminate in 2007. The agreement did not include any extension option.

Lease rental income amounting to approximately HK$1,727,000 (2005: HK$2,524,000) relating to the lease of leased equipment were included in the income statement.

As at 31st December, 2006, the gross carrying amount of leased equipment and the accumulated depreciation were approximately HK$5,459,000 (2005: HK$5,459,000) and HK$4,851,000 (2005: HK$3,032,000) respectively. The depreciation expense for the Year was approximately HK$1,819,000 (2005: HK$1,819,000).

8 Intangible assets - Group

	Goodwill HK$'000	Software licence HK$'000	Total HK$'000
As at 1st January, 2005			
Cost	99,507	20,877	120,384
Accumulated amortisation and impairment	(33,088)	(19,398)	(52,486)
Net book amount	66,419	1,479	67,898
Year ended 31st December, 2005			
Opening net book amount	66,419	1,479	67,898
Exchange differences	(8,741)	(182)	(8,923)
Additions	—	428	428
Amortisation charge for discontinued operations (Note (a))	—	(648)	(648)
Impairment charge for discontinued operations (Note (b))	(512)	(78)	(590)
Closing net book amount	57,166	999	58,165
As at 31st December, 2005			
Cost	87,705	20,015	107,720
Accumulated amortisation and impairment	(30,539)	(19,016)	(49,555)
Net book amount	57,166	999	58,165

8 Intangible assets - Group (Continued)

	Goodwill HK$'000	Software licence HK$'000	Total HK$'000
Year			
Opening net book amount	57,166	999	58,165
Exchange differences	3,866	74	3,940
Additions (Note 38)	17	185	202
Amortisation charge for discontinued operations (Note (a))	—	(597)	(597)
Impairment charge for continuing operations (Note (b))	(837)	—	(837)
Impairment charge for discontinued operations (Note (b))	(60,212)	(293)	(60,505)
Disposals	—	(128)	(128)
Less: included in non-current assets held for sale (Note 36)	—	(240)	(240)
Closing net book amount	—	—	—
As at 31st December, 2006			
Cost	10,947	—	10,947
Accumulated amortisation and impairment	(10,947)	—	(10,947)
Net book amount	—	—	—

Notes:

(a) Amortisation was included in the administrative expenses for the discontinued operations.

(b) The carrying amount of the segment was reduced to its recoverable amount through recognition of an impairment loss against goodwill. These impairment charges were disclosed in the income statement separately for continuing operations and discontinued operations.

8 Intangible assets - Group (Continued)

Impairment tests for goodwill

Goodwill was allocated to the CGUs of the Group identified according to region of operation and business segment. The impairment of goodwill of approximately HK$837,000 and HK$60,212,000 were related to the Mainland China segment for the design, sale and implementation of data networking systems, provision of related engineering services and sale of goods and the Europe segment for the provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS respectively.

The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments. A long-term growth rate into perpetuity was not used to extrapolate cash flows beyond the budget period. Instead, management used earnings multiple to determine the terminal value of the respective CGU of the Group. The growth rate did not exceed the long-term average growth rate for the business in which the CGU operated.

The discount rate used for the analysis of the CGU is as follows:

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS
Discount rate	14.60%	14.50%

The impairment charge arose in the CGU for the continuing operations in Mainland China and for the discontinued operations in Europe. This was the result of an acquisition of subsidiaries in the prior years which continued to make significant losses.

9 Investments in and amounts due from/to subsidiaries - Company

(a) Investments in subsidiaries

	2006 **HK$'000**	2005 HK$'000
Investments, at cost, unlisted	**73,918**	73,918
Impairment of investments in subsidiaries	**(31,332)**	—
	42,586	73,918

The following was a list of the principal subsidiaries as at 31st December, 2006:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
泰思通軟件(上海)有限公司 ("TSTSH")	PRC, limited liability company	Research and development of software and related software consultancy services in Mainland China	US$510,000	83%
廣州市愛達利發展有限公司 ("GVDL")	PRC, limited liability company	Design, sale and implementation of data networking systems and provision of related engineering services in Mainland China	RMB3,000,000	54%
廣州市圖文資訊有限公司 ("GZIC")	PRC, limited liability company	Provision of internet related data services in Mainland China	RMB1,000,000	44% (Note (ii))
廣州愛達利科技有限公司 ("VTGL")	PRC, limited liability company	Design, sale and implementation of data networking systems and provision of related engineering services in Mainland China	RMB3,000,000	100%

9 Investments in and amounts due from/to subsidiaries - Company (Continued)

(a) Investments in subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2006: (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
Communications Appliances Ou Chung Limited	Macao, limited liability company	Sale of mobile phones in Macao	MOP3,002,000	100%
Guangzhou Thinker Vodatel Limited	PRC, limited liability company	Research and development of wireless data communications and internet related products in Mainland China	US$3,000,000	82% (Note (iii))
Multi Asia (HK) Limited	Hong Kong, limited liability company	Dormant	1 ordinary share of HK$1 each	100%
Mega Datatech Limited	Macao, limited liability company	Provision of computer software, hardware and system integration in Macao	MOP100,000	100%
Power Express (Macau) Limited	Macao, limited liability company	Sale of communications equipment in Macao	MOP1,685,000	100%
Servicios Telefónicos de Audiotex, Sociedad Anónima (Note (i))	Spain, limited liability company	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in Spain	150,000 ordinary registered shares of €6.01021 each	60%
SuperCom GmbH Audiotex Systeme (Note (i))	Germany, limited liability company	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in Germany	25,000 Deutsche Mark (the lawful currency of Germany before the introduction of €)	60%

9 Investments in and amounts due from/to subsidiaries - Company (Continued)

(a) Investments in subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2006: (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
Teleconcept Multimedia B.V. (Note (i))	The Netherlands, limited liability company	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in the Netherlands	1,800 ordinary shares of €10 each	60%
Teleconcept- Multimedia N.V. (Note (i))	The Netherlands, limited liability company	Investment holding in Finland, Germany, Hong Kong, the Netherlands and Spain	11,250,000 ordinary shares of €0.01 each	60%
Teleconcept-Multimedia China Limited (Note (i))	Hong Kong, limited liability company	Dormant	1 ordinary share of HK$1 each	60%
Tel-More Productions Oy (Note (i))	Finland, limited liability company	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in Finland	100 ordinary shares of €500 each	60%
Tidestone Science and Technology (Hong Kong) Company Limited	Hong Kong, limited liability company	Investment holding in Mainland China and software consultancy services in Hong Kong	1,000 ordinary shares of HK$1 each	83%
Vodatel Holdings Limited	BVI, limited liability company	Investment holding and design, sale and implementation of data networking systems and provision of related engineering services in Macao	10,000 shares of US$1 each	100%[1]

9 Investments in and amounts due from/to subsidiaries - Company (Continued)

(a) Investments in subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2006: (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
Vodatel Integrated Solutions (Vietnam) Limited (Note (i))	Vietnam, limited liability company	Design sale and implementation of data networking systems and provision of related engineering services in Vietnam	US$20,000	75%
Vodatel Networks (H.K.) Limited	Hong Kong, limited liability company	Sale of data networking systems and provision of related engineering services in Hong Kong	2 ordinary shares of HK$1 each	100%
Vodatel Systems Inc.	BVI, limited liability company	Design, sale and implementation of data networking systems and provision of related engineering services in Macao	1,000 ordinary shares of US$1 each	100%
Vodatel Systems Inc. - Macao Commercial Offshore	Macao, limited liability company	Dormant	MOP100,000	100%
Vodatel Systems (HK) Limited	BVI, limited liability company	Provision of warehouse services in Hong Kong	1,000 ordinary shares of US$1 each	100%

[1] Shares held directly by the Company

Notes:

(i) Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 19.02% of the net assets of the Group.

(ii) GVDL held 81.82% interest directly in GZIC.

(iii) On 29th December, 2006, the effective interests of the Group in GTVL increased from 60% to 81.6% following the acquisition of an effective interest of 21.6% in GTVL from the minority shareholder of GTVL with a consideration of RMB500,000 (approximately HK$499,000). In this transaction, the Group recorded a goodwill of HK$17,000 (Note 38).

9 Investments in and amounts due from/to subsidiaries - Company (Continued)

(b) Amounts due from/to subsidiaries

The amounts due from/to subsidiaries were unsecured, interest-free and repayable on demand.

10 Investments in associates - Group

	2006 HK$'000	2005 HK$'000
Beginning of the Year	**1,832**	1,630
Share of (loss)/profit	**(257)**	202
	1,575	1,832
Disposal (Note)	**(1,130)**	—
End of the Year	**445**	1,832

The investments of the Group in its associate, which was unlisted as at 31st December, 2006, were as follows:

Name	**Place of incorporation**	**Particulars of registered capital held**	**Effective interest held**
Source Tech Limited	Macao	MOP100,000	45%

	Assets HK$'000	**Liabilities** HK$'000	**Revenue** HK$'000	**Loss** HK$'000
Year ended 31st December, 2005	8,273	(1,245)	4,170	(9,682)
Year	1,490	(500)	3,593	(1,592)

Note:

On 30th November, 2006, the Group disposed of its interest in GLGTCT to a minority shareholder of GTVL for a cash consideration of approximately RMB500,000 (approximately HK$499,000). A loss of approximately HK$631,000 was recognised and included in administrative expenses (Note 22).

11 Available-for-sale financial assets - Group

	2006 HK$'000	2005 HK$'000
Beginning of the year	**19,663**	24,059
Additions	**—**	8,300
Disposals	**—**	(2,490)
Revaluation (Note 20(a))	**(4,161)**	(10,206)
End of the year	**15,502**	19,663

There were no disposals of listed securities (2005: approximately HK$2,490,000) and no impairment provision on available-for-sale financial assets during the Year (2005: Nil).

Available-for-sale financial assets included the following:

	2006 HK$'000	2005 HK$'000
Equity securities:		
- Listed – Hong Kong (Note)	**8,606**	12,767
- Unlisted	**6,896**	6,896
	15,502	19,663

	2006 HK$'000	2005 HK$'000
Available-for-sale financial assets were denominated in the following currencies:		
HK$	**8,607**	12,768
MOP	**1,110**	1,110
US$	**5,785**	5,785
	15,502	19,663

11 Available-for-sale financial assets - Group (Continued)

Note:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Approximate effective interest held
Mobile Telecom Network (Holdings) Limited	The Cayman Islands, limited liability company	Development, provision and sale of mobile internet communication telecommunication and related services in Hong Kong and other Asian countries	472,811,363 ordinary shares of US$0.01 each	20%

The Group had 20% interest in MTNHL, which was listed on GEM. The Group had no representation on the board of directors of MTNHL, did not participate in policy-making process, had no material transaction with MTNHL, had no interchange of managerial personnel and did not provide essential technical information to MTNHL or vice versa. The significant influence from the Group to MTNHL was absent, thus MTNHL was not an associate of the Group.

12 Loaned asset - Group

	2006 **HK$'000**	2005 HK$'000
Unlisted debt securities traded on inactive markets and private issuers:		
Beginning of the year	**38,597**	38,629
Revaluation (Note 20(a))	**151**	(32)
End of the year	**38,748**	38,597
Less: current portion	**(38,748)**	—
Non-current portion	**—**	38,597

The loaned asset represented unlisted debt securities traded on inactive markets and issued by private issuers, which was secured against certain borrowings as at 31st December, 2006 (Note 18). The debt securities would mature in October, 2007.

The loaned asset was denominated in US$ (2005: US$).

13 Inventories - Group

	2006 HK$'000	2005 HK$'000
Networking and image processing equipment	**15,478**	17,980
Mobile phones	**667**	639
	16,145	18,619

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK$345,150,000 (2005: approximately HK$377,600,000).

During the year ended 31st December, 2005, the Group recognised a loss of approximately HK$7,354,000 for the provision of its inventories. The loss was included in cost of sales in the income statement.

As at 31st December, 2006, the amount of inventories that were carried at net realisable value amounted to approximately HK$5,938,000 (2005: HK$ 13,472,000).

14 Trade, bills and other receivables - Group and Company

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Trade and bills receivables	**249,727**	329,195	**—**	—
Less: provision for impairment of receivables	**(77,766)**	(87,284)	**—**	—
Trade and bills receivables - net	**171,961**	241,911	**—**	—
Other receivables, deposits and prepayments	**26,228**	27,817	**271**	265
	198,189	269,728	**271**	265

14 Trade and other receivables - Group and Company (Continued)

The carrying amounts of the trade and bill receivables approximated their fair value.

Sales 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 the individual customer and the Group. As at 31st December, 2006, the ageing analysis of the trade and bills receivables was as follows:

	2006 HK$'000	2005 HK$'000
Within three months	**110,657**	175,538
> Three months but ≤ six months	**20,225**	46,327
> Six months but ≤ twelve months	**18,571**	15,703
Over twelve months	**100,274**	91,627
	249,727	329,195

The carrying amounts of the trade and bills receivables of the Group were denominated in the following currencies:

	2006 HK$000	2005 HK$000
HK$	**6,900**	10,770
US$	**66,007**	83,326
Other currencies	**99,054**	147,815
	171,961	241,911

Movements on the provision for impairment of trade and bills receivables were as follows:

	2006 HK$000	2005 HK$000
Beginning of the year	**87,284**	86,704
Less: included in non-current assets held for sale	**(13,236)**	—
Beginning of the year (restated)	**74,048**	86,704
Impairment for continuing operations (Note 22)	**3,718**	6,980
Impairment for discontinued operations	**—**	360
Unused amounts reversed	**—**	(6,760)
End of the year	**77,766**	87,284

The creation and release of impairment for receivables were included in administrative expenses in the income statement. Amounts charged to the allowance account were generally written off when there was no expectation of recovering additional cash.

15 Loans and receivable and other financial assets at fair value through profit or loss - Group

	2006 **HK$000**	2005 HK$000
Investments in convertible bonds, listed, split into:		
Loans and receivable	—	774
Other financial assets at fair value through profit and loss	—	592
	—	1,366
Market value of listed securities	—	592

Other financial assets at fair value through profit or loss were presented within the section on operating activities as part of changes in working capital in the cash flow statement.

In the year ended 31st December 2005, unrealised fair value loss in respect of the other financial assets at fair value through profit or loss of approximately HK$1,384,000 was recorded in other gains - net in the income statement (Note 23).

A loss of HK$592,000 was recorded during the Year when the convertible bonds were fully repaid in the Year (2005: Nil) (Note 23).

16 Cash and cash equivalents - Group and Company

	Group		**Company**	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Cash at bank and in hand	**107,914**	73,475	**336**	236
Short-term bank deposits	**14**	29,579	**—**	—
	107,928	103,054	**336**	236

The effective interest rate on short-term bank deposits was 3.25% (2005: 4%). These deposits had an average maturity of fourteen days.

16 Cash and cash equivalents - Group and Company (Continued)

Cash and cash equivalents and bank overdrafts included the following for the purpose of the cash flow statement:

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Cash and cash equivalents	**107,928**	103,054	**336**	236
Bank overdrafts (Note 18)	**(517)**	(402)	**—**	—
	107,411	102,652	**336**	236

17 Trade, bills and other payables - Group and Company

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Trade and bills payables (Note)	**165,151**	183,884	**—**	—
Other payables and accruals (Note)	**56,194**	79,146	**3,658**	2,922
	221,345	263,030	**3,658**	2,922

As at 31st December, 2006, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) was as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Within three months	**100,766**	139,595
> Three months but ≤ six months	**1,899**	34,411
> Six months but ≤ twelve months	**20,292**	4,238
Over twelve months	**42,194**	5,640
	165,151	183,884

Note:

Included in trade, bills and other payables were approximately HK$561,000 (2005: HK$375,000) and HK$452,000 (2005: HK$493,000), which were due to José Manuel dos Santos, a Director and a related company owned by him respectively.

18 Borrowings - Group

	2006 **HK$'000**	2005 HK$'000
Non-current		
Bank borrowings, secured (Note)	**—**	35,010
Current		
Other loans, unsecured	**—**	13,783
Bank overdrafts (Note 16)	**517**	402
Bank borrowings, secured (Note 12)	**35,010**	—
Bank borrowings, unsecured	**—**	25,031
	35,527	39,216
Total borrowings	**35,527**	74,226

Note:

Secured bank borrowings of approximately HK$35,010,000 (2005: HK$35,010,000) were secured by unlisted debt securities traded on inactive markets and issued by private issuers of approximately HK$38,748,000 (2005: HK$ 38,597,000) (Note 12).

Bank borrowings were repayable in 2007, and bore an annual coupon rate of 2.56% annually (2005: 8%).

As at 31st December, 2006, the borrowings of the Group were repayable as follows:

	Bank borrowings and overdrafts		**Other loans**	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Within one year	**35,527**	25,433	**—**	13,783
Between one and two years	**—**	35,010	**—**	—
	35,527	60,443	**—**	13,783

18 Borrowings - Group (Continued)

The effective interest rates at the balance sheet date were as follows:

	2006		2005		
	MOP	**US$**	MOP	€	US$
Bank overdrafts	9%	—	9%	—	—
Bank borrowings	—	2.56%	—	—	8%
Other loan	—	—	—	8%	—

The exposure of the borrowings of the Group to interest rate changes and the contractual repricing dates were as follows:

	2006 HK$'000	2005 HK$'000
Six months or less	**517**	39,216
Six months to twelve months	**35,010**	—
One to five years	**—**	35,010
	35,527	74,226

The carrying amounts of all borrowings approximated their fair value.

The carrying amounts of the borrowings were denominated in the following currencies:

	Group	
	2006 HK$'000	2005 HK$'000
MOP	**517**	402
US$	**35,010**	60,041
€	**—**	13,783
	35,527	74,226

In addition, the Group had the following undrawn borrowing facilities:

	2006 HK$'000	2005 HK$'000
Floating rate		
- expiring beyond one year	**135,577**	161,657

The facilities were annual facilities subjected to review at various dates during 2007.

19 Share capital

	Number of Shares	Ordinary shares HK$'000	Share premium HK$'000	Total HK$'000
As at 1st January, 2005, 31st December, 2005 and 31st December, 2006	613,819,000	61,382	97,676	159,058

The total authorised number of ordinary shares was 2,000,000,000 (2005: 2,000,000,000) with a par value of HK$0.10 per Share (2005: HK$0.10 per Share). All issued Shares were fully paid.

Share options

Share options were granted to all executive Directors and certain employees. The exercise price of the granted options was higher than the market price of the Shares on the date of the grant. The options were exercisable starting on the date on which the option was granted and accepted by the grantee, or expiring on 4th November, 2012, whichever is earlier. The options had a contractual option term of three years. The Group had no legal or constructive obligation to repurchase or settle the options in cash.

Pursuant to a special general meeting of the Company held on 5th November, 2002, the share option scheme adopted by the Company on 10th February, 2000 was terminated and another share option scheme was approved and adopted. Under a share option scheme approved by the Members, the Directors might, at their discretion, invite full-time employees including executive Directors to take up options to subscribe for the Shares in issue from time to time (excluding Shares issued on exercise of options under the share option scheme). A nominal consideration at HK$1 was paid by the employees for each lot of share options granted. Share options could be exercised immediately after the date of grant and before the expiry date.

Movements in the number of share options outstanding and their related weighted average exercise price of HK$0.42 per Share were as follows:

	Options	
	2006	2005
As at 1st January	**12,896,000**	14,466,000
Lapsed	**(12,896,000)**	(1,570,000)
As at 31st December	**—**	12,896,000

Share options outstanding as at 1st January, 2006 lapsed on 29th June, 2006 with an exercise price of HK$0.42 per Share.

20 Other reserves - Group and Company

(a) Group

	Capital redemption reserve HK$'000	Available-for-sale investments reserve HK$'000	Merger reserve HK$'000 (Note (i))	Translation reserve HK$'000	Statutory reserve HK$'000 (Note (ii))	Total HK$'000
Balance as at 1st January, 2005	702	3,308	35,549	3,034	49	42,642
Revaluation (Notes 11 and 12)	—	(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)
Balance as at 31st December, 2005	702	(7,526)	35,549	248	49	29,022
Balance as at 1st January, 2006	702	(7,526)	35,549	248	49	29,022
Revaluation (Notes 11 and 12)	—	(4,010)	—	—	—	(4,010)
Currency translation differences	—	—	—	(664)	—	(664)
Balance as at 31st December, 2006	702	(11,536)	35,549	(416)	49	24,348

Note:

(i) The merger reserve of the Group included the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the Shares in exchange thereof together with an existing balance on the share premium account of a subsidiary.

(ii) The Macao Decreto-Lei n.° 40/99/M Código Comercial (Commercial Code) required a company incorporated in Macao to set aside a minimum of 25% of the profit after income tax expense to the statutory reserve each financial year until the balance of the reserve reached a level equivalent to 50% of the capital of the company. Statutory reserve represented the amount set aside from the income statement and was not distributable to Members.

20 Other reserves - Group and Company (Continued)

(b) Company

	Contributed surplus HK$'000 (Note(i))	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1st January, 2005	73,718	702	(10,928)	63,492
Loss for the year ended 31st December, 2005	—	—	(11,718)	(11,718)
As at 31st December, 2005	73,718	702	(22,646)	51,774
As at 1st January, 2006	73,718	702	(22,646)	51,774
Loss for the Year	—	—	(44,518)	(44,518)
As at 31st December, 2006	73,718	702	(67,164)	7,256

Note:

(i) The contributed surplus represented the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the Shares issued for the acquisition at the time of the group reorganisation. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus was distributable to Members, subject to the condition that the Company could not declare or pay a dividend, or make a distribution out of contributed surplus if (1) it was, or would after the payment be, unable to pay its liabilities as they become due, or (2) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(ii) Distributable reserves of the Company as at 31st December, 2006 amounted to approximately HK$6,554,000 (2005: HK$51,072,000).

21 Deferred income tax

Deferred income tax assets were recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits was probable. The Group did not recognise deferred income tax assets of approximately HK$50,470,000 (2005: approximately HK$28,726,000) in respect of losses amounting to approximately HK$201,295,000 (2005: approximately HK$109,659,000) that could be carried forward against future taxable income. The tax losses would not expire.

There was no other material unprovided deferred income tax as at 31st December, 2006.

22 Expenses by nature

	2006 HK$'000	2005 HK$'000 (restated)
Auditors' remuneration		
charge for the year	**3,322**	2,643
under/(over) provision in prior years	**482**	(937)
Cost of inventories (Note 13)	**345,150**	377,600
Depreciation (Note 7)	**3,989**	4,674
Employee benefit expense (Note 24)	**41,269**	36,437
Impairment of trade receivables (Note 14)	**3,718**	6,980
Loss on disposal of an associate (Note 10)	**631**	—
Operating lease payments		
- land and buildings	**2,545**	2,209
Provision for inventories	**—**	7,354
Transportation expenses	**1,650**	1,623
Other expenses	**56,744**	51,011
Total cost of sales, selling and marketing costs and administrative expenses	**459,500**	489,594

23 Other (losses)/gains - net

	2006 HK$'000	2005 HK$'000 (restated)
Other financial assets at fair value through profit or loss:		
- Unrealised fair value losses (Note 15)	**—**	(1,384)
Dividend income	**—**	9
Gains on disposal of available-for-sale financial assets	**—**	3,704
Loss on disposal of other financial assets through profit or loss (Note 15)	**(592)**	—
Other gains	**205**	233
	(387)	2,562

No investment income was derived from available-for-sale financial assets during the Year. The investment income from listed investments for the year ended 31st December, 2005 was HK$9,000 and that for unlisted investments was HK$2,187,000.

24 Employee benefit expense

	2006 HK$'000	2005 HK$'000 (restated)
Wages and salaries	**39,293**	34,501
Directors' fees	**880**	880
Social security costs	**1,017**	1,070
Unutilised annual leave	**—**	27
Pension costs - defined contribution plans	**128**	149
Long service payment	**(49)**	(190)
	41,269	36,437

(a) Directors' and senior management's emoluments

The remuneration of every Director for the Year is set out below:

	Fees		Salary		Employer's contribution to pension scheme	Total	
Name of Director	Continuing operations HK$'000	Discontinued operations HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Continuing operations HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000
José Manuel dos Santos	130	65	3,604	520	–	3,734	585
Yim Hong	130	33	1,398	–	12	1,540	33
Kuan Kin Man	130	33	751	–	–	881	33
Monica Maria Nunes	130	–	635	–	12	777	–
Chui Sai Cheong	120	66	–	–	–	120	66
Lo King Chiu Charles	120	–	–	–	–	120	–
Fung Kee Yue Roger	120	–	–	–	–	120	–

The remuneration of every Director for the year ended 31st December, 2005 is set out below:

	Fees		Salary		Employer's contribution to pension scheme	Total	
Name of Director	Continuing operations HK$'000	Discontinued operations HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Continuing operations HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000
José Manuel dos Santos	130	130	3,604	520	–	3,734	650
Yim Hong	130	60	1,398	254	12	1,540	314
Kuan Kin Man	130	60	751	–	–	881	60
Monica Maria Nunes	130	–	524	–	12	666	–
Chui Sai Cheong	120	120	–	–	–	120	120
Lo King Chiu Charles	120	–	–	–	–	120	–
Fung Kee Yue Roger	120	–	–	–	–	120	–

24 Employee benefit expense (Continued)

(a) Directors' and senior management's emoluments (Continued)

No Director waived or agreed to waive any of their emoluments in respect of the Year and the year ended 31st December, 2005.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Year included two (2005: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals during the Year are as follows:

	2006 **HK$'000**	2005 HK$'000
Basic salaries and allowances	**3,457**	4,216
Bonuses	**659**	—
Pension costs - defined contribution plan	**344**	385
	4,460	4,601

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK$1,000,000 - HK$1,500,000	**1**	2
HK$1,500,001 - HK$2,000,000	**2**	1

25 Finance income and costs

	2006 **HK$'000**	2005 HK$'000 (restated)
Interest expense:		
- bank borrowings: bank loans and overdrafts - wholly repayable within five years	**(1,217)**	(5,774)
Finance costs	**(1,217)**	(5,774)
Finance income	**2,679**	3,440
Finance income/(costs) - net	**1,462**	(2,334)

26 Income tax (credit)/expense

Hong Kong profits tax was provided at the rate of 17.5% (2005: 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.

	2006 HK$'000	2005 HK$'000 (restated)
Current income tax		
- Hong Kong profits tax	**30**	—
- Macao complementary profits tax	**766**	36
- Mainland China profits tax	**3,337**	1,897
- Over-provision in prior years	**(12,455)**	—
	(8,322)	1,933

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

	2006 HK$'000	2005 HK$'000 (restated)
Loss before income tax for continuing operations	**(22,799)**	(26,939)
Tax calculated at the domestic tax rates applicable to losses in the respective regions	**(1,605)**	(4,692)
Income not subject to tax	**(5,676)**	(1,534)
Expenses not deductible for tax purposes	**7,705**	1,892
Mainland China deemed income tax	**—**	36
Over-provision in prior years	**(12,455)**	—
Utilisation of previously unrecognised tax losses	**—**	(1,430)
Tax losses for which no deferred income tax asset was recognised	**3,709**	7,661
Income tax (credit)/expense	**(8,322)**	1,933

The weighted average applicable tax rate was 14.28% (2005:14.94%). The change was caused by a change in the profitability of the subsidiaries of the Group in the respective regions.

27 Net foreign exchange (gains)/losses

The exchange differences recognised in the income statement were included as follows:

	2006 **HK$'000**	2005 HK$'000
Administrative expenses	**(1,457)**	1,859

28 Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company was dealt with in the financial statements of the Company to the extent of approximately HK$44,518,000 (2005: HK$11,718,000).

29 Loss per Share

(a) 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.

	2006	2005
Continuing operations		
Loss attributable to equity holders of the Company (HK$'000)	**14,316**	30,581
Weighted average number of Shares in issue (thousands)	**613,819**	613,819
Basic loss per Share (HK cents)	**2.33**	4.98
Discontinued operations		
Loss attributable to equity holders of the Company (HK$'000)	**69,778**	6,907
Weighted average number of Shares in issue (thousands)	**613,819**	613,819
Basic loss per Share (HK cents)	**11.37**	1.13
Total		
Loss attributable to equity holders of the Company (HK$'000)	**84,094**	37,488
Weighted average number of Shares in issue (thousands)	**613,819**	613,819
Basic loss per Share (HK cents)	**13.70**	6.11

(b) Diluted

No diluted loss per Share for the Year was presented as there were no options, warrants or other convertible instruments in issue as at 31st December, 2006. No diluted loss per Share for the year ended 31st December, 2005 was presented as the exercise of the outstanding share options of the Company would have an anti-dilutive effect.

30 Dividends

No dividend was paid during the Year (2005: Nil).

The Directors did not recommend the payment of a final dividend for the Year (2005: Nil).

31 Cash generated from operations

Reconciliation of loss before income tax to net cash inflow generated from operations:

	2006 HK$'000	2005 HK$'000 (restated)
Loss before income tax		
- Continuing operations	(22,799)	(26,939)
- Discontinued operations	(79,103)	(11,190)
- Gain on disposal of subsidiaries	8,137	—
Loss before income tax	(93,765)	(38,129)
Adjustments for:		
- Amortisation of software licence	597	648
- Depreciation	5,319	7,030
- Dividend income	—	(9)
- Fair value losses on other financial assets at fair value through profit or loss	—	1,384
- Foreign exchange (gains)/losses on operating activities	(3,695)	4,459
- Gain on disposal of available-for-sale financial assets	—	(3,704)
- Gain on disposal of subsidiaries	(8,137)	—
- Loss on disposal of other financial assets through profit or loss	592	—
- Goodwill impairment charge	61,049	512
- Impairment of inventories	—	7,354
- Share of loss/(profit) from associates	257	(202)
- Impairment of software licence	293	78
- Impairment of trade receivables	7,309	7,340
- Interest income	(2,740)	(3,571)
- Gain on disposal of property, plant and equipment (see below)	(1,518)	—
- Finance costs	2,373	7,511
- Loss on disposal of an associate	631	—
- Loss on disposal of intangible assets	128	—
	(31,307)	(9,299)
Changes in working capital		
- Inventories	511	21,619
- Trade and bills receivables and other receivables, deposits and prepayments	36,121	(66,033)
- Trade and bills payables	18,600	68,487
- Other payables and accruals	12,058	(5,280)
Cash generated from operations	35,983	9,494

31 Cash generated from operations (Continued)

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2006 HK$'000	2005 HK$'000
Net book amount	**324**	—
Gain on disposal of property, plant and equipment	**1,518**	—
Proceeds from disposal of property, plant and equipment	**1,842**	—

32 Contingencies

The Company had contingent liabilities in respect of bank guarantees arising in the ordinary course of business.

It was not anticipated that any material liabilities would arise from the contingent liabilities.

The Company gave guarantees in the ordinary course of business amounting to approximately HK$162,465,000 (2005: approximately HK$213,136,000) to subsidiaries, as disclosed in Note 9.

The Company executed guarantees amounting to approximately HK$21,360,000 (2005: approximately HK$41,086,000) with respect to banking facilities and trade credits made available to subsidiaries. As at 31st December, 2006, no borrowing was outstanding against the facilities (2005: approximately HK$25,433,000).

33 Operating lease commitments - where the Group was the lessee

The Group leased various offices and a warehouse under non-cancellable operating lease agreements. The leases had varying terms, escalation clauses and renewal rights.

The Group also leased various motor vehicles under non-cancellable operating lease agreements. The lease expenditure expensed in the income statement for continuing operations during the Year was disclosed in Note 22.

The future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	2006 HK$'000	2005 HK$'000
No later than one year	**2,715**	4,508
Later than one year and no later than five years	**1,600**	4,131
	4,315	8,639

34 Operating leases - where the Group was the lessor

The future minimum lease payments receivable under non-cancellable operating leases were as follows:

	2006 HK$'000	2005 HK$'000
No later than one year	**899**	1,727
Later than one year and no later than five years	**—**	899
	899	2,626

35 Related party transactions

During the Year, the Group had significant transactions with related parties which were carried out in the normal course of business at terms determined and agreed by both parties, details of which were as follows:

(a) The Group had transactions with a related company owned by a Director, José Manuel dos Santos, as follows:

	2006 HK$'000	2005 HK$'000
Sale of goods	**31**	90
Purchase of goods	**—**	(45)
Occupancy costs	**(717)**	(767)

(b) During the Year, the Group paid occupancy costs of approximately HK$108,000 (2005: HK$717,000) and HK$54,000 (2005: HK$47,000) to a Director, José Manuel dos Santos and to a director of certain subsidiaries respectively.

(c) Management considered remuneration to all key management of the Group are disclosed in Note 24 to the financial statements.

(d) During the Year, the Group paid management fee of approximately HK$36,000 (2005: approximately HK$570,000) to a company owned by a former director of various subsidiaries.

(e) As at 31st December, 2006, other receivables, deposits and prepayments included in the non-current assets held for sale (Note 36) consisted of loans to related parties of approximately HK$2,053,000 (2005: HK$1,836,000) which was already fully provided for.

(f) As at 31st December, 2006, short-term borrowings included in the liabilities directly associated with non-current assets held for sale (Note 36) consisted of loan from a related party of approximately HK$1,040,000 (2005: HK$930,000) and other payables and accruals included the corresponding interest payable of approximately HK$147,000 (2005: HK$61,000).

35 Related party transactions (Continued)

(g) On 29th December, 2006, the effective interests of the Group in GTVL increased from 60% to 81.6% following the acquisition of an effective interest of 21.6% in GTVL from the minority shareholder of GTVL with a consideration of RMB500,000 (approximately HK$499,000) (Note 38).

36 Non-current assets held for sale and discontinued operations

During the Year, the Group disposed of its interests in MIHL, which was previously presented as a separate segment for provision of digital imaging processing management solutions (Note 37). The disposal was completed on 13th June, 2006.

In addition, the Group determined to dispose of TCM, which was previously presented as a separate segment for 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. It was expected that the sale of TCM will be completed in 2007.

(a) Non-current assets held for sale

	2006 **HK$'000**	2005 HK$'000
Non-current assets held for sale:		
- Property, plant and equipment	**2,517**	—
- Intangible assets	**240**	—
- Trade and bill receivables	**13,196**	—
- Other receivables, deposit and prepayments	**5,771**	—
- Cash and cash equivalents	**1,132**	—
Total	**22,856**	—

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

	2006 **HK$'000**	2005 HK$'000
Trade and bill payables	**27,351**	—
Other payables and accruals	**28,394**	—
Current income tax liabilities	**510**	—
Borrowings	**7,651**	—
Bank overdrafts	**484**	—
Total	**64,390**	—

36 Non-current assets held for sale and discontinued operations (Continued)

(c) Analysis of the results of discontinued operations

	2006 HK$'000	2005 HK$'000
Revenue	**99,739**	133,206
Cost of sales	**(77,016)**	(100,544)
Gross profit	**22,723**	32,662
Selling and marketing costs	**(1,205)**	(1,466)
Administrative expenses	**(42,333)**	(47,453)
Other gains - net	**3,019**	7,185
Operating loss	**(17,796)**	(9,072)
Impairment of goodwill	**(60,212)**	(512)
Finance income	**61**	131
Finance costs	**(1,156)**	(1,737)
Loss from discontinued operations - before income tax	**(79,103)**	(11,190)
Income tax expense	**(215)**	(486)
Loss from discontinued operations - after income tax	**(79,318)**	(11,676)
Gain on disposal of subsidiaries (net of tax) (Note 37)	**8,137**	—
Loss for the Year from discontinued operations	**(71,181)**	(11,676)

(d) Analysis of the cash flows from discontinued operations

	2006 HK$'000	2005 HK$'000
Operating cash flows	**3,438**	4,258
Investing cash flows	**1,092**	(3,477)
Financing cash flows	**(7,761)**	(906)
Total cash flows	**(3,231)**	(125)

36 Non-current assets held for sale and discontinued operations (Continued)

(e) Expenses by nature

	2006 HK$'000	2005 HK$'000
Amortisation of software licence	**597**	648
Cost of inventories	**41,514**	66,312
Depreciation	**1,330**	2,356
Employees' benefit expense	**23,282**	27,478
Impairment of software licence	**293**	78
Impairment of trade receivables	**3,592**	360
Operating lease payments - land and buildings	**3,265**	3,592
Transportation expenses	**—**	219
Other expenses	**46,671**	48,420
Total cost of sales, selling and marketing costs and administrative expenses	**120,544**	149,463

(f) Operating lease commitments - where TCM was the lessee

The future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	2006 HK$'000	2005 HK$'000
No later than one year	**1,551**	2,934
Later than one year and no later than five years	**1,248**	3,436
	2,799	6,370

37 Disposal of subsidiaries

On 13th June 2006, the Group disposed of its interest of 61.05% in MIHL for a consideration satisfied by cash of approximately HK$10,378,000. MIHL ceased to be a subsidiary of the Company following the disposal and the Company had no more shareholding interest in MIHL.

	HK$'000
Sale proceeds	10,378
Net book value of net assets disposed of	(2,241)
Gain on disposal of MIHL (Note 36 (c))	8,137

The assets and liabilities disposed of at the date of disposal were as follows:

Property, plant and equipment	1,073
Inventories	1,963
Trade receivables	7,180
Other receivables, deposits and prepayments	1,962
Cash and cash equivalents	8,091
Trade payables	(9,982)
Other payables and accruals	(6,616)
Minority interest	(1,430)
	2,241

38 Business combinations

On 29th December, 2006, the effective interests of the Group in GTVL increased from 60% to 81.6% following the acquisition of an effective interest of 21.6% in GTVL from the minority shareholder of GTVL with a consideration of RMB500,000 (approximately HK$499,000). In this transaction, the Group recorded a goodwill of HK$17,000. The acquired business contributed revenue of approximately HK$25,976,000 and net loss of approximately HK$8,548,000 to the Group for the Year.

Details of net assets acquired and goodwill were as follows:

	2006 HK$'000
Purchase consideration settled in cash	**499**
Fair value of net assets acquired - shown as below	**(482)**
Goodwill (Note 8)	17

38 Business combinations (Continued)

The carrying amount of assets and liabilities as at 31st December, 2006 arising from the acquisition was as follows:

	2006 HK$'000
Cash and cash equivalents	4,291
Property, plant and equipment	45
Income tax prepaid	936
Trade and other receivables	7,752
Trade and other payables	(11,820)
Net assets	1,204
Carrying value of net assets acquired	482
Purchase consideration settled in cash	(499)

Five Fiscal Periods Financial Summary

For the Year

Results	Year ended 31st December, 2006 HK$'000	Year ended 31st December, 2005 HK$'000	Eighteen months ended 31st December, 2004 HK$'000	Year ended 30th June, 2003 HK$'000	Year ended 30th June, 2002 HK$'000 (restated)
(Loss)/profit attributable to					
- equity holders	(84,094)	(37,488)	(173,625)	10,594	56,992
- minority interest	(1,564)	(3,060)	(17,277)	(562)	1,763
Assets and liabilities					
Total assets	405,825	523,695	585,170	491,822	552,275
Total liabilities	(366,305)	(391,931)	(400,365)	(145,153)	(220,609)
Total equity	39,520	131,764	184,805	346,669	331,666

Definitions

In this annual report (excluding the "Independent Auditors' Report to the shareholders of the Company"), unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	acquisition of the Sale Equity contemplated under the Agreement
"Auditors"	the auditors of the Company
"Agreement"	the sale and purchase agreement entered into between the Vendor, VCL and GVDL on 29th December, 2006
"AIOUM"	Asia International Open University (Macau)
"Associated Corporations"	corporations: - 1. which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or 2. (not being subsidiaries of the Company) in which the Company has an interest in the shares of a class comprised in its share capital exceeding in nominal value one-fifth of the nominal value of the issued share of that class
"Audit Committee"	the audit committee of the Company
"Australia"	Commonwealth of Australia
"Board"	the board of the Directors
"BVI"	British Virgin Islands
"Bye-laws"	the existing bye-laws of the Company
"CGU"	cash-generating unit
"Chief Executive"	a person who either alone or together with one or more other persons is or will be responsible under the immediate authority of the Board for the conduct of the business of the Company
"CO"	the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) as amended from time to time
"Code"	the code provisions of the Code of Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules
"Company"	Vodatel Networks Holdings Limited
"Controlling Shareholder"	any person who is or group of persons who were together entitled to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Code on Takeovers and Mergers approved by the Securities and Futures Commission, established under section 3 of the Securities and Futures Commission Ordinance (Cap. 24 of the Laws of Hong Kong) and continuing in existence under section 3 of the SFO, as amended from time to time, as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the Company or who is or are in a position to control the composition of a majority of the Board

Definitions

"CPPCC"	Chinese People's Political Consultative Conference
"Director(s)"	the director(s) of the Company
"ERL"	Eve Resources Limited, a company incorporated in BVI with limited liability
"Exchange"	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
"Finland"	The Republic of Finland (not applicable to Voxtel Finland Oy)
"Functional Currency"	the currency of the primary economic environment in which an entity operates
"Gazetted Newspapers"	those newspapers which were, from time to time, specified in the list of newspapers issued and published in the Gazette for the purposes of section 71A of the CO by the Chief Secretary of the Government of Hong Kong
"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
"GEM Website"	the internet website operated by the Exchange for the purposes of GEM
"Germary"	The Federal Republic of Germany
"GLGTCT"	廣州普天同創通信科技有限公司, details of which can be referred to in Note 10 to the financial statements
"Group" or "Vodatel"	the Company and its subsidiaries
"GTVL"	Guangzhou Thinker Vodatel Limited, details of which can be referred to in Note 9 to the financial statements
"GVDL"	廣州市愛達利發展有限公司, details of which can be referred to in Note 9 to the financial statements
"GZIC"	廣州市圖文資訊有限公司, details of which can be referred to in Note 9 to the financial statements
"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 Hong Kong Accounting Standard, The Stock Exchange of Hong Kong Limited, the Hong Kong Institute of Certified Public Accountants and Tidstone Science and Technology (Hong Kong) Company Limited)
"IVR"	interactive voice response
"LRL"	Lois Resources Limited, a company incorporated in BVI with limited liability
"Macao"	the Macao Special Administrative Region of the PRC (not applicable to the Macao Chamber of Commerce, the Macao Junior Chamber of Commerce and Vodatel Systems Inc. — Macao Commercial Offshore)
"Main Board"	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
"Mainland China"	the PRC, other than the regions of Hong Kong, Macao and Taiwan
"MDL"	Mega Datatech Limited, details of which can be referred to in Note 9 to the financial statements
"Member(s)"	holder(s) of Shares
"MIHL"	MegaInfo 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
"MOP"	Patacas, the lawful currency of Macao
"MTNHL"	Mobile Telecom Network (Holdings) Limited, details of which can be referred to in Note 11 to the financial statements, and whose shares are listed on GEM
"the Netherlands"	The Kingdom of the Netherlands
"Nomination Committee"	the nomination committee of the Company
"NUPT"	Nanjing University of Posts and Telecommunications
"OSS"	Operation Support System
"PRC"	The People's Republic of China
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of Mainland China
"Sale Equity"	40% equity interest in GTVL
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) as amended from time to time

Definitions

"SGMBH"	SuperCom GmbH Audiotex Systeme, details of which can be referred to in Note 9 to the financial statements
"Share(s)	share(s) of HK$0.10 each in the capital of the Company
"SMS"	short message services
"Spain"	The Kingdom of Spain
"STASA"	Servicios Telefónicos de Audiotex, Sociedad Anónima, details of which can be referred to in Note 9 to the financial statements
"Substantial Shareholder"	in relation to companies means a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
"TCM"	Teleconcept-Multimedia N.V., details of which can be referred to in Note 9 to the financial statements
"TMBV"	Teleconcept Multimedia B.V., details of which can be referred to in Note 9 to the financial statements
"TSTSH"	泰思通軟件(上海)有限公司, details of which can be referred to in Note 9 to the financial statements
"UK"	The United Kingdom of Great Britain and Northern Ireland
"UM"	University of Macau
"USA"	The United States of America
"US$"	United States Dollar, the lawful currency of USA
"VCL"	Vodatel China Limited, incorporated in BVI with limited liability and an indirectly wholly-owned subsidiary of the Company
"Vendor"	廣州創想科技有限公司, a company incorporated in the PRC with limited liability
"VFO"	Voxtel Finland Oy, details of which can be referred to in Note 9 to the financial statements
"VHL"	Vodatel Holdings Limited, details of which can be referred to in Note 9 to the financial statements
"Vietnam"	The Socialist Republic of Vietnam
"Year"	the year ended 31st December, 2006
"Zetronic"	Zetronic Communications (Macau) Limited, a company incorporated in Macao with limited liability
"€"	Euro, the lawful currency of the European Union