VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

BUSINESS AND FINANCIAL HIGHLIGHTS FOR THE YEAR

— Turnover for the Year from continuing operations amounted to HK$436,720,000 with net loss narrowing from HK$28,418,000 to HK$14,477,000

— Discontinued operations resulted in a net loss of HK$71,181,000 for the Group

— Continued to maintain a solid balance sheet with cash on hand as at 31st December, 2006 amounted to HK$107,928,000

— Business momentum in Macao remained strong with over HK$221,851,000 of revenue from infrastructural projects recognised during the Year

— Disposed MIHL at a profit of HK$8,137,000

— Exit a number of invested assets, including TCM

— The Board does not recommend the payment of a dividend for the Year

RESULTS

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

Consolidated balance sheet

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

	Note	As at 31st December, 2006 HK$'000	2005 HK$'000
Financed by:			
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**159,058**	159,058
Other reserves	10	**24,348**	29,022
Accumulated losses	10	**(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		**—**	35,010
Total assets less current liabilities		**39,520**	166,774

Consolidated income statement

	Note	2006 HK$'000	2005 HK$'000 *(restated)*
Continuing operations			
Revenue	4	**436,720**	462,225
Cost of sales	5	**(380,057)**	(407,528)
Gross profit		**56,663**	54,697
Selling and marketing costs	5	**(7,752)**	(8,163)
Administrative expenses	5	**(71,691)**	(73,903)
Other (losses)/gains - net		**(387)**	2,562
Operating loss		**(23,167)**	(24,807)
Impairment of goodwill		**(837)**	—
Finance income		**2,679**	3,440
Finance costs		**(1,217)**	(5,774)
Finance income/(costs) - net	6	**1,462**	(2,334)
Share of (loss)/profit of associates		**(257)**	202
Loss before income tax		**(22,799)**	(26,939)
Income tax credit/(expense)	7	**8,322**	(1,933)
Loss for the Year from continuing operations		**(14,477)**	(28,872)
Discontinued operations			
Loss for the Year from discontinued operations	11	**(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)

	Note	2006 HK$'000	2005 HK$'000 *(restated)*
Loss per Share for loss from continuing operations attributable to the equity holders of the Company during the Year (expressed in HK cents)			
- basic	8	**2.33**	4.98
- diluted	8	**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	8	**11.37**	1.13
- diluted	8	**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	8	**13.70**	6.11
- diluted	8	**Not applicable**	Not applicable
Dividends	9	**—**	—

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

Notes:

1. **Basis of preparation**

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

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

(a) 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.

(b) 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 period 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 - were 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.

(c) 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 Economics (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 group entities 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 group entities would change the terms of their contracts, HK(IFRIC)-Int 9 would not be relevant to the operations of the Group.

(d) 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 — New 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 HKFRS;
- 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. **Trade and bills receivables**

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

	2006	2005
	HK$'000	HK$'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

3. **Trade and bills payables**

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:

	2006	2005
	HK$'000	HK$'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

4. **Revenue and segment information**

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

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

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

(b) Sale of 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 evidence 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.

(c) 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.

(d) Digital image processing management solutions

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

(e) Sale of services

The Group sold maintenance services to the end users. These services were provided at 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.

(f) Interest income

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

(g) Dividend income

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

(h) Operating lease rental income

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

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 in 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 of digital image processing management solutions (note 12). On 24th November, 2006, the Group determined to dispose of the operation 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 11).

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	**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
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 dispoal of subsidiaries				—	8,137	—	8,137
Finance income				2,679			61
Finance costs				(1,217)			(1,156)
Finance income/(costs)-net (note 6)				1,462			(1,095)
Share of loss of associates				(257)			—
Loss before income tax				(22,799)			(70,966)
Income tax credit/(expense) (note 7)				8,322			(215)
Loss for the Year				(14,477)			(71,181)

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

	Continuing operations			Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Sale of mobile phones	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
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 of inventories	—	—	—	109	—	109

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

Segment assets consisted primarily of freehold land, property, plant and equipment, intangible assets, inventories, receivables, cash and cash equivalents. Unallocated assets comprised available-for-sale financial assets, loaned asset, loans and receivables 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 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	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

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**
Continuing operations	
Mainland China	**157,900**
Hong Kong and Macao	**278,820**
	436,720
Discontinued operations	
Hong Kong and Macao	**24,819**
Mainland China	**562**
Europe	**74,358**
	99,739

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

Total assets	**2006** **HK$'000**
Continuing operations	
Mainland China	**106,889**
Hong Kong and Macao	**260,114**
	367,003
Associates	**445**
Unallocated assets	**15,521**
	382,969
Discontinued operations	
Europe	**22,856**

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

Capital expenditures	2006 HK$'000
Continuing operations	
Mainland China	**324**
Hong Kong and Macao	**344**
	668
Discontinued operations	
Hong Kong and Macao	**57**
Europe	**859**
	916

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

5. Expenses by nature

	2006 HK$'000	2005 HK$'000 *(restated)*
Cost of inventories	**345,150**	377,600
Depreciation	**3,989**	4,674
Impairment of trade receivables	**3,718**	6,980
Employee benefit expenses (including Directors' emoluments)	**41,269**	36,437
Provision for inventories	**—**	7,354

6. 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)

7. **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	2005
	HK$'000	HK$'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	2005
	HK$'000	HK$'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 profitabilty of the subsidiaries of the Group in the respective regions.

8. **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.

9. **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).

10. **Other reserves and accumulated losses**

	Capital redemption reserve HK$'000	Available-for-sale investments reserve HK$'000	Merger reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Total HK$'000	Accumulated losses HK$'000
Balance as at 1st January, 2005	702	3,308	35,549	3,034	49	42,642	(27,860)
Revaluation	—	(10,238)	—	—	—	(10,238)	—
Reserves transferred to income statement upon disposal of available-for-sale financial assets	—	(596)	—	—	—	(596)	—
Currency translation differences	—	—	—	(2,786)	—	(2,786)	—
Loss for the year ended 31st December, 2005	—	—	—	—	—	—	(37,488)
Balance as at 31st December, 2005	702	(7,526)	35,549	248	49	29,022	(65,348)
Balance as at 1st January, 2006	702	(7,526)	35,549	248	49	29,022	(65,348)
Revaluation	—	(4,010)	—	—	—	(4,010)	—
Currency translation differences	—	—	—	(664)	—	(664)	—
Loss for the Year	—	—	—	—	—	—	(84,094)
Balance as at 31st December, 2006	702	(11,536)	35,549	(416)	49	24,348	(149,442)

11. **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. 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 of provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS on 24th November, 2006. The assets and liabilities related to TCM as at 31st December, 2006 were presented as held for sale. 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, deposits and prepayment	**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**	—
	64,390	—

(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
Impairment of goodwill	**(60,212)**	(512)
Finance income	**61**	131
Finance costs	**(1,156)**	(1,737)
Loss from discontinued operations — before income tax expense	**(79,103)**	(11,190)
Income tax expense	**(215)**	(486)
Loss from discontinued operations — after income tax expense	**(79,318)**	(11,676)
Gain on disposal of a discontinued operation (net of tax)	**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)

12. **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
Sales proceeds	10,378
Net book value of net assets disposed of	(2,241)
Gain on disposal of MIHL	8,137

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

	HK'000
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

BUSINESS REVIEW

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.

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 Operation Support System 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 rolling 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 that 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 SuperCom GmbH Audiotex Systeme (incorporated in Germany with limited liability and an indirectly owned subisidary of the Company) 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.

Capital Structure and Financial Resources

Attributable to the negative 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.

STATEMENT ON CORPORATE GOVERNANCE PRACTICES

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DEFINITIONS

"Board"	the board of the Directors
"Company"	Vodatel Networks Holdings Limited
"Directors"	the directors of the Company
"Exchange"	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
"GEM"	the Growth Enterprise Market operated by the Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time
"Germany"	the Federal Republic of Germany
"Group"	the Company and its subsidiaries
"HK cents"	Hong Kong cents, where 100 HK cents equal HK$1
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong

"Functional Currency"	the currency of the primary economic environment in which an entity operates
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	financial reporting standards approved by the Council of the HKICPA, and includes all HKAS and interpretations of HKFRS approved by the HKICPA from time to time
"HKICPA"	the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong)
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC (not applicable to The Stock Exchange of Hong Kong Limited, Hong Kong Accounting Standard and the Hong Kong Institute of Certified Public Accountants)
"IVR"	interactive voice response
"Macao"	the Macao Special Administrative Region of the PRC
"Mainland China"	the PRC, other than the regions of Hong Kong, Macao and Taiwan
"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
"PRC"	The People's Republic of China
"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, incorporated in Spain with limited liability and an indirectly owned subsidiary of the Company
"TCM"	Teleconcept-Multimedia N.V., incorporated in the Netherlands with limited liability and an indirectly owned subsidiary of the Company
"TMBV"	Teleconcept Multimedia B.V., incorporated in the Netherlands with limited liability and an indirectly owned subsidiary of the Company
"The Netherlands"	The Kingdom of the Netherlands

"TSTSH"	泰思通軟件(上海)有限公司, incorporated in the PRC with limited liability and an indirectly owned subsidiary of the Company
"VFO"	Voxtel Finland Oy, incorporated in the Republic of Finland with limited liability and an indirectly owned subsidiary of the Company
"Year"	the year ended 31st December, 2006

By order of the Board
José Manuel dos Santos
Chairman

Macao, 26th March, 2007

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

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

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

This announcement will remain on the "Latest Company Announcement" page on the internet website operated by the Exchange for the purposes of GEM for at least seven days from the date of publication and on www.vodatelsys.com.

** for identification purpose only*