



Building a Stronger Foundation



***VODATEL***

(Stock code: 8033)

2005 ANNUAL REPORT

## **Characteristics of GEM**

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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, CPA, FCCA, Grad ICSA

## **Qualified Accountant**

Foo Chun Ngai Redford, CPA, FCCA, Grad ICSA

## **Compliance Officer**

Monica Maria Nunes

## **Audit Committee**

Chui Sai Cheong

Lo King Chiu Charles

Fung Kee Yue Roger

## **Auditors**

PricewaterhouseCoopers

*Certified Public Accountants*

22nd Floor, Prince's Building

Central

Hong Kong

## **Registered Office**

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

## **Head Office and Principal Place of Business**

74 da Rua da Felicidade

Edifício Vodatel

Taipa

Macao

Tel: (853) 721182, 718033

Fax: (853) 717800, 752909

## **Place of Business in Hong Kong**

Unit 3201, 32nd Floor, AIA Tower

183 Electric Road

North Point

Hong Kong

Tel: (852) 2587 8868

Fax: (852) 2587 8033

## **Website**

<http://www.vodatelsys.com>

## **Bankers**

Banco Comercial de Macau, S.A.

DBS Bank (Hong Kong) Limited

Industrial and Commercial Bank of China  
(Asia) Limited

## **Share Registrars**

Abacus Share Registrars Limited

Level 28, Three Pacific Place

1 Queen's Road East

Hong Kong



## Company Profile

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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 and system equipment and software, including self-developed operation support system, 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.

Through its separate listing entity, MIHL, the Group is engaged in the research, development and delivery of innovative and quality value-added applications, with an aim to increase operating effectiveness and efficiencies of enterprises.

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 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

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Dear Members,

I've always thought that annual reports focused too much about the past, therefore, in this annual report, while I will report to you our achievements and the challenges that we have faced during 2005, I will also explain how we have executed the strategies during the Year to shape a sustainable pathway for the Group for the upcoming years.

2005 is a year of real contrasts for Vodatel. After experiencing a very difficult 2004, we didn't start off too well due to lagging effects from the preceding financial year. Nevertheless benefited from the robust economy in Macao, we finished off 2005 with a strong quarter, boosting turnover for the Year to reach HK\$595,431,000, just a mere 1% less of our record year achieved during year ended 30th June, 2002.

Despite a strong last quarter, we failed to recoup the losses brought forward from the beginning of 2005 and reported net loss of HK\$37,488,000 for the Group. Nevertheless, we closed the Year with successfully turning around the operating results of our core business in the construction of network and system infrastructure in Macao and Mainland China to achieve operating breakeven for the full year and a strong order book with over HK\$160,000,000 secured contracts as at end of February 2006.

Practicing prudent cash management over the years, therefore, despite making an early and full repayment of the US\$15,000,000 syndicated loans raised in September 2003 during the Year, such move has not created major hiccups to the cashflow of the Group. With positive cashflow generated from operations experienced during the Year, we closed our books with healthy cash balances of over HK\$100,000,000, translating to cash per share of HK\$0.17 and current ratio of 1.10 times. Prudent cash management will continue to be the top priority of the Group.

2005 can also be described as a year of geographical shift. Macao is where sustainable development started for the Year, contributing to almost 50% of total turnover of the Group. I once described Macao to be at a stage of convergence, with the territory fighting to balance the sudden emergence of massive investments against shifting competitive landscapes, changing local expectations and human resources allocation. Therefore, although we have successfully leveraged on the human resources of our technical team in Mainland China, to continue to successfully capitalise on the strong business momentum in Macao, our ability to effectively and efficiently manage human resources will be a major challenge for Vodatel during 2006.

2005 continued to be a year of consolidation. To further address the changing market environment and adjust the new set of market parameters in Mainland China, we have progressed to further combine and consolidate the geographical presence of TSTSH and our local representative offices in Mainland China. Through integration, we aim to further control and save operating costs, maximise utilisation of resources, eliminate duplication of investments and maintain healthy overall operating margins. I am also pleased to report that the OSS of TSTSH has successfully built up its momentum and secured a favorable market positioning in Mainland China, with telecommunications bureaus in seven provinces and autonomous regions now deploying the OSS of TSTSH to manage their local data networks.

Finally, to anchor our focus on selected markets, 2006 is anticipated to be a year of reconciliation. We aim to reconcile the individual performance of investments that we made in the international fronts, applying future potential and ability to provide stable and recurring earnings as the determining criteria.

I hope that this annual report will help you to judge our performance for yourself. There is no doubt that we will continue to pursue our goal to deliver efficient operating performance and strive for financial stability as we progress. And without the continuous support of our Members, suppliers, partners and customers, our goal will not be successful.

Finally, I would like to extend a special appreciation to the management team and employees for their support and hard work during the past years in particular the last two years, which were very difficult years for Vodatel.

And as the theme of this annual report, we are "Building a Stronger Foundation"!

**José Manuel dos Santos**

*Chairman*

Hong Kong, 27th March, 2006

# Management Discussion and Analysis

## REVIEW OF BUSINESS ACTIVITIES

### Mainland China – Consolidating resources to achieve greater efficiency

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

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





## REVIEW OF BUSINESS ACTIVITIES (Continued)

### Mainland China – Consolidating resources to achieve greater efficiency (Continued)

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

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

### Macao – Maintaining a leading market positioning

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

# Management Discussion and Analysis

## REVIEW OF BUSINESS ACTIVITIES (Continued)

### Macao – Maintaining a leading market positioning (Continued)

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

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

### International Operations – Repositioning to gain a stable footing

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

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

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

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

## REVIEW OF BUSINESS ACTIVITIES (Continued)

### International Operations – Repositioning to gain a stable footing (Continued)

With respect to its operations in the Asia Pacific Region, while the Group is in the process of reviewing its investments in the Socialist Republic of Vietnam, MTNHL, with geographical coverage in various countries in the Asia Pacific Region and where the Group has 20% equity interests, continues to put its primary focus in 2.5G and 3G services provisioning. And for Timor Telecom S.A., which is the sole operator of telecommunications services in the Democratic Republic of Timor-Leste and where the Group has 16.9% equity interests, the operator reported net profit exceeding US\$2,000,000 (approximately HK\$15,507,000) for the second year since its establishment in 2001.

## REVIEW OF OPERATING RESULTS

### Turnover and Profitability

Attributable to a strong last quarter, increased business activities in Macao and the consolidation of the full year results of TCM and CAOCL, turnover for the Group reached HK\$595,431,000, representing just a mere 1% below our record year of turnover achieved during year ended 30th June, 2002 and an increase of 51.41% over the annualised turnover of the preceding financial period. Geographical mix of total turnover shifted, with business from Mainland China now representing 36.59% of total turnover of the Group and business from Hong Kong and Macao and Europe representing 49.11% and 14.30% of total turnover respectively.

Gross profit for the Year amounted HK\$87,359,000 with gross profit margin improving from 6.44% to 14.67%. Despite the consolidation of the full year result of TCM, as the Year was not hampered by significant impairment of trade receivables, goodwill and software license, therefore, administrative expenses decreased to HK\$121,355,000 and operating loss for the Year narrowed sharply from HK\$175,169,000 to HK\$30,308,000, with operating results of our three core lines of business improved considerably.

# Management Discussion and Analysis

## REVIEW OF OPERATING RESULTS (Continued)

### Turnover and Profitability (Continued)

Ascribed to the three-year US\$15,000,000 (approximately HK\$116,303,000) syndicated loans raised during 2003 and rising interest rates during 2005, finance costs for the Year reached HK\$7,511,000. However, with the early and full repayment of the syndicated loans in September 2005, future finance costs is expected to decrease. Total loss for the Year amounted HK\$37,488,000 as compared to total loss of HK\$173,625,000 for the preceding financial period.

### Capital Structure and Financial Resources

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

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

Current ratio remained stable at approximately 1.10 times.

### Employees' Information

As at 31st December, 2005, the Group had 324 employees, of which 114, 12, 153 and 45 employees were based in Macao, Hong Kong, Mainland China and Europe respectively. Employee costs, including Directors' emoluments, totaled HK\$63,915,000.

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".

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.



## REVIEW OF OPERATING RESULTS (Continued)

### Capital Commitments and Significant Investments

As at 31st December, 2005, the Group did not have any significant capital commitments and significant investments.

### Charges on Group Assets

As at 31st December, 2005, the Group did not have any charges on assets of the Group.

### Details of Material Acquisitions and Disposals

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 58, was 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 Correios e Telecomunicações, the telecommunications authority of the Government of Macao, prior to the founding of Zetronic and subsequently the Group. He is an executive director of MIHL.

**YIM Hong**, aged 48, was 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, the United Kingdom of Great Britain and Northern Ireland 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. He is also a non-executive director of MIHL.

**KUAN Kin Man**, aged 40, 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. He is also a non-executive director of MIHL.

**Monica Maria NUNES**, aged 37, 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 52, 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 governmental committees in PRC. 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 the Association of Economic Sciences of Macau (president). He is an independent non-executive director of MIHL, Innovo Leisure Recreation Holdings Limited (a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board) and Cheung Tai Hong Holdings Limited (a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board) and a non-executive director of Honesty Treasure International Holdings Limited (a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board) .

**LO King Chiu Charles**, aged 62, 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 53, 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 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 36, 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.

**FOO Chun Ngai Redford**, aged 32, 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 (Accounting and Finance). He is a fellow of the Association of Chartered Certified Accountants and a Certified Public Accountant in Hong Kong. He is also a graduate of the Institute of Chartered Secretaries and Administrators. 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.

**HOWai Sam Paul**, aged 43, is the director of technical services of the Group. He graduated from Asia International Open University (Macau), 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.

**NG Ka Leung**, aged 36, 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.

**SI I Hong**, aged 37, 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 48, 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 35, 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.



**SENIOR MANAGEMENT (By alphabetical order) (Continued)**

**WONG Chi Ping**, aged 56, 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 Wai Kan**, aged 41, 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 42, 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 35, 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

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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 8 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 17 to the financial statements.

## Donations

Charitable and other donations made by the Group during the Year amounted to approximately HK\$58,000.

## Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the financial statements.

## Share capital

Details of the share capital of the Company are set out in note 16 to the financial statements.

## Distributable reserves

Distributable reserves of the Company as at 31st December, 2005, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK\$51,072,000 (2004: HK\$62,790,000).

## Pre-emptive rights

There is no provision for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the laws of Bermuda, which will 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 three financial years ended up to 30th June, 2003, the eighteen months ended 31st December, 2004 and the Year is set out on page 105.

## 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 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 were as follows:

### 1 Purpose

The scheme was designed to give executive Directors and senior employees holding an executive, managerial or supervisory position 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 employees including any executive Directors and directors of its subsidiaries.

### 3 Maximum number of Shares

The total number of Shares available for issue under the scheme as at 31st December, 2005 was 61,381,900, representing 10% of the issued share capital of the Company as at 31st December, 2005.

### 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.

# Report of the Directors

## 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 share options outstanding as at 31st December, 2005 which were granted under the scheme were as follows:

Name or category of participant	Number of options			Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	held as at 1st January, 2005	lapsed during the Year	held as at 31st December, 2005				
José Manuel dos Santos	600,000	—	600,000	0.42(note a)	30th June, 2003	30th June, 2003	29th June, 2006
Yim Hong	900,000	—	900,000	0.42(note a)	30th June, 2003	30th June, 2003	29th June, 2006
Kuan Kin Man	900,000	—	900,000	0.42(note a)	30th June, 2003	30th June, 2003	29th June, 2006
Monica Maria Nunes	900,000	—	900,000	0.42(note a)	30th June, 2003	30th June, 2003	29th June, 2006
Continuous contract employees	11,166,000	(1,570,000)	9,596,000	0.42(note a)	30th June, 2003	30th June, 2003	29th June, 2006
	14,466,000	(1,570,000)	12,896,000				

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

<sup>1</sup> Chui Sai Cheong

<sup>1</sup> Lo King Chiu Charles

<sup>1</sup> Fung Kee Yue Roger

<sup>1</sup> Independent non-executive Directors

In accordance with Article 87 of the Bye-laws, Chui Sai Cheong 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, José Manuel dos Santos, Yim Hong and Lo King Chiu Charles retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Chui Sai Cheong, Lo King Chiu Charles and Fung Kee Yue Roger are independent non-executive Directors. Chui Sai Cheong and Lo King Chiu Charles were re-appointed for a two-year term expiring on 13th December, 2006. Fung Kee Yue Roger was appointed for a two-year term expiring on 29th September, 2006.

## 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 36 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, 2005 or at any time during the Year.

## Biographical details of Directors and senior management

Brief biographical details of Directors and senior management were set out on pages 12 to 15.

# Report of the Directors

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

As at 31st December, 2005, 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 and short positions in the Shares and underlying Shares (in respect of equity derivatives)

Name of Director	Long position/ short position	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of share options) held	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Long position	Corporate interest/ founder of a discretionary trust (note 1)	293,388,000	—	47.80%
	Long position	Personal (note 2)	—	600,000	0.10%
	Short position	Corporate interest (note 3)	—	12,896,000	2.10%
Yim Hong	Long position	Personal (note 4)	7,357,500	900,000	1.35%
Kuan Kin Man	Long position	Personal (note 5)	12,262,500	900,000	2.14%
Monica Maria Nunes	Long position	Personal (note 6)	2,452,500	900,000	0.55%
Fung Kee Yue Roger	Long position	Personal (note 7)	210,000	—	0.03%

Notes:

- As at 31st December, 2005, 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 were the discretionary objects and which assets included a controlling stake of 47.80% of the issued share capital of the Company.
- The personal interest of José Manuel dos Santos comprised 600,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest was held by José Manuel dos Santos as beneficial owner.
- Options were granted by the Company under a share option scheme. Since José Manuel dos Santos was interested in more than one-third of the issued share capital of the Company as at 31st December, 2005, he was deemed to have a short position in the 12,896,000 underlying Shares.

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

Notes: (Continued)

- 4 The personal interest of Yim Hong comprised 7,357,500 Shares and 900,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest was held by Yim Hong as beneficial owner.
- 5 The personal interest of Kuan Kin Man comprised 12,262,500 Shares and 900,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- 6 The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 900,000 underlying Shares in respect of share options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- 7 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 of the Company**

The register of Substantial Shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31st December, 2005, the Company had been notified of the following Substantial Shareholders' interests and short positions, being 5% or more of the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and Chief Executive:

# Report of the Directors

## Aggregate long and short positions in the Shares and underlying Shares (in respect of equity derivatives)

Name	Long position/ short position	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of share options) held	Approximate % of the issued share capital of the Company
ERL	Long position	Corporate interest (note 1)	293,388,000	—	47.80%
	Short position	Corporate interest (note 2)	—	12,896,000	2.10%
LRL	Long position	Corporate interest (note 1)	293,388,000	—	47.80%
	Short position	Corporate interest (note 2)	—	12,896,000	2.10%
Lei Hon Kin (note 3)	Long position	Family interest	293,988,000	—	47.89%
	Short position	Corporate interest	—	12,896,000	2.10%

Notes:

- 1 As at 31st December, 2005, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL.
- 2 Options were granted by the Company under a share option scheme. Since both ERL and LRL were interested in more than one-third of the issued share capital of the Company as at 31st December, 2005, they were deemed to have a short position in the 12,896,000 underlying Shares.
- 3 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	13.87%
— five largest suppliers combined	38.36%

### Sales

— the largest customer	10.30%
— five largest customers combined	36.48%

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

Significant related party transactions entered by the Group during the Year, which constitute exempted connected transactions under the GEM Listing Rules, were disclosed in note 36 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

Hong Kong, 27th March, 2006

# 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

Six meetings were held during the Year.

The attendance record of each Director is as follows:

José Manuel dos Santos	6/6
Yim Hong	6/6
Kuan Kin Man	6/6
Monica Maria Nunes	6/6
Chui Sai Cheong	5/6
Lo King Chiu Charles	5/6
Fung Kee Yue Roger	6/6

### 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 strategy 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 strategically, contracts of the Company or any subsidiary in the ordinary course of business, for example bank borrowings and acquisition or disposal of fixed assets.

# Corporate Governance Report

## 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, or changes of trustees 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 principle professional advisers 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).

All independent non-executive Directors have confirmed their independence.

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

Chui Sai Cheong and Lo King Chiu Charles were appointed for a two-year term expiring on 13th December, 2006. Fung Kee Yue Roger was appointed for a two-year term expiring on 29th September, 2006. Their Directors' 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

One meeting was held during the Year.

The attendance record of each Director is as follows:

José Manuel dos Santos	1/1
Chui Sai Cheong	1/1
Lo King Chiu Charles	1/1
Fung Kee Yue Roger	1/1

During the Year, the Remuneration Committee determined the policy and structure for the remuneration of the Directors, evaluated their performance and approved the terms of all the executive Directors' service contracts, which were renewed with an expiry date of 11th February, 2007.

# Corporate Governance Report

## 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 meetings were held during the Year.

## 8 Auditors' remuneration

Remuneration of audit is HK\$1,750,000 for the Year. The Group paid approximately HK\$91,000 to PricewaterhouseCoopers Limited for the tax compliance work of the Company and certain subsidiaries for the year of assessment 2004/2005. The Group also paid approximately US\$12,000 (approximately HK\$93,000) to PricewaterhouseCoopers Legal Lawyers in Vietnam for the assistance of establishment of a subsidiary there.

## 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

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

Chui Sai Cheong	6/7
Lo King Chiu Charles	6/7
Fung Kee Yue Roger	7/7

## 9 Audit Committee (Continued)

During the Year, the Audit Committee reviewed the financial reports for the Year, for the six months ended 30th June, 2005 and for the quarters ended 31st March, 2005 and 30th September, 2005. The Audit Committee also reviewed and discussed the report of the Auditors to the Audit Committee for the eighteen months ended 31st December, 2005 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 were responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it was fundamental that appropriate accounting policies were selected and applied consistently.

It is the responsibility of the Auditors to form an independent opinion, based on their audit, on those financial statements 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 did not assume responsibility towards or accept liability to any other person for the contents of their report.

On behalf of the Board

**José Manuel dos Santos**

*Chairman*

Hong Kong, 27th March, 2006

# Auditors' Report

## AUDITORS' REPORT TO THE SHAREHOLDERS OF VODATEL NETWORKS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 31 to 104 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with 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.

### Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 27th March, 2006





# Consolidated Balance Sheet

As at 31st December,			
	Note	2005 HK\$'000	2004 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	12,587	15,655
Intangible assets	7	58,165	67,898
Interests in associates	9	1,832	1,630
Available-for-sale financial assets	10	19,663	—
Loaned assets	10	38,597	—
Non-trading securities	11	—	72,450
		<b>130,844</b>	<b>157,633</b>
<b>Current assets</b>			
Inventories	13	18,619	47,592
Income tax prepaid		84	80
Trade and bills receivables	12	241,911	178,536
Other receivables, deposits and prepayments	12	27,817	32,499
Loans and receivable		774	—
Other financial assets			
at fair value through profit or loss	14	592	—
Cash and cash equivalents	15	103,054	168,830
		<b>392,851</b>	<b>427,537</b>
<b>Current liabilities</b>			
Trade and bills payables	18	183,884	115,397
Other payables and accruals	18	79,146	84,426
Current income tax liabilities		54,675	53,490
Borrowings	19	39,216	132,198
		<b>356,921</b>	<b>385,511</b>
<b>Net current assets</b>		<b>35,930</b>	<b>42,026</b>
<b>Total assets less current liabilities</b>		<b>166,774</b>	<b>199,659</b>
<b>Financed by:</b>			
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	16	159,058	159,058
Other reserves	17(a)	29,022	44,649
Accumulated losses		(65,348)	(30,994)
		<b>122,732</b>	<b>172,713</b>
<b>Minority interests</b>		<b>9,032</b>	<b>12,092</b>
<b>Total equity</b>		<b>131,764</b>	<b>184,805</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	19	35,010	14,854
<b>Total assets less current liabilities</b>		<b>166,774</b>	<b>199,659</b>

On behalf of the Board

Director

Director

The notes on pages 36 to 104 are an integral part of these consolidated financial statements.

# Balance Sheet

		As at 31st December,	
	Note	2005 HK\$'000	2004 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	8(a)	<b>73,918</b>	73,918
<b>Current assets</b>			
Amounts due from subsidiaries	8(b)	<b>141,177</b>	152,576
Other receivables, deposits and prepayments		<b>265</b>	802
Cash and cash equivalents	15	<b>236</b>	2,402
		<b>141,678</b>	155,780
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Amounts due to subsidiaries	8(b)	<b>1,842</b>	1,895
Other payables and accruals		<b>2,922</b>	5,253
		<b>4,764</b>	7,148
<b>Net current assets</b>		<b>136,914</b>	148,632
<b>Total assets less current liabilities</b>		<b>210,832</b>	222,550
<b>Financed by:</b>			
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	16	<b>159,058</b>	159,058
Other reserves	17(b)	<b>74,420</b>	74,420
Accumulated losses		<b>(22,646)</b>	(10,928)
<b>Total equity</b>		<b>210,832</b>	222,550

On behalf of the Board

Director

Director

The notes on pages 36 to 104 are an integral part of these consolidated financial statements.

# Consolidated Income Statement

	Note	Year HK\$'000	Eighteen months ended 31st December, 2004 HK\$'000
Sales	5	595,431	589,883
Cost of sales	22	(508,072)	(551,922)
<b>Gross profit</b>		<b>87,359</b>	37,961
Other gains - net	21	13,318	5,726
Selling and marketing costs	22	(9,630)	(14,026)
Administrative expenses	22	(121,355)	(204,830)
<b>Operating loss</b>		<b>(30,308)</b>	(175,169)
Deemed disposal gain from separate listing of MIHL	23	—	17,953
Impairment of goodwill		(512)	(25,931)
Finance costs	25	(7,511)	(4,346)
Share of profit/(losses) of associates	9	202	(1,511)
<b>Loss before income tax</b>		<b>(38,129)</b>	(189,004)
Income tax expense	26	(2,419)	(1,898)
<b>Loss for the Year/period</b>		<b>(40,548)</b>	(190,902)
<b>Attributable to:</b>			
Equity holders of the Company		(37,488)	(173,625)
Minority interests		(3,060)	(17,277)
		<b>(40,548)</b>	(190,902)
<b>Loss per Share for loss attributable to the equity holders of the Company during the Year (HK cents)</b>			
- basic	29	6.11	28.29
- diluted	29	Not applicable	Not applicable
<b>Dividends</b>	30	—	3,446

The notes on pages 36 to 104 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company				Total HK\$'000
		Share capital HK\$'000	Other reserves HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Minority interests HK\$'000	
<b>Balance as at 1st July, 2003</b>		159,058	32,250	149,146	6,215	346,669
Fair value gains, net of tax:						
- non-trading securities	17(a)	—	5,516	—	—	5,516
Reserves transferred to income statement upon disposal of non-trading securities	17(a)	—	3,957	—	—	3,957
Currency translation differences	17(a)	—	2,926	—	—	2,926
Net income recognised directly in equity		—	12,399	—	—	12,399
Loss for the eighteen months ended 31st December, 2004		—	—	(173,625)	(17,277)	(190,902)
Total recognised income/ (expense) for the eighteen months ended 31st December, 2004		—	12,399	(173,625)	(17,277)	(178,503)
Dividend relating to the eighteen months ended 31st December, 2004	30	—	—	(6,515)	—	(6,515)
Minority interest - Business combinations	35	—	—	—	23,154	23,154
<b>Balance as at 31st December, 2004</b>		159,058	44,649	(30,994)	12,092	184,805
<b>Balance as at 1st January, 2005, as per above</b>		159,058	44,649	(30,994)	12,092	184,805
Opening adjustment for the adoption of HKAS 39	2(a),17(a)	—	(2,007)	3,134	—	1,127
<b>Balance as at 1st January, 2005, as restated</b>		159,058	42,642	(27,860)	12,092	185,932
Fair value gains, net of tax:						
- available-for-sale financial assets	17(a)	—	(10,238)	—	—	(10,238)
Reserves transferred to income statement upon disposal of available-for-sale financial assets	17(a)	—	(596)	—	—	(596)
Currency translation differences	17(a)	—	(2,786)	—	—	(2,786)
Net expense recognised directly in equity		—	(13,620)	—	—	(13,620)
Loss for the Year		—	—	(37,488)	(3,060)	(40,548)
Total recognised expenses for the year		—	(13,620)	(37,488)	(3,060)	(54,168)
<b>Balance as at 31st December, 2005</b>		159,058	29,022	(65,348)	9,032	131,764

The notes on pages 36 to 104 are an integral part of these consolidated financial statements.



# Consolidated Cash Flow Statement

	Note	Year HK\$'000	Eighteen months ended 31st December, 2004 HK\$'000
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	31	<b>9,494</b>	(28,791)
Interest paid		<b>(7,511)</b>	(4,346)
Income tax paid		<b>(1,238)</b>	(1,231)
Net cash generated from/(used in) operating activities		<b>745</b>	(34,368)
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	35	—	(26,724)
Purchase of property, plant and equipment	6	<b>(4,286)</b>	(11,507)
Purchase of intangible assets	7	<b>(428)</b>	(567)
Purchase of associates		—	(58)
Purchase of non-trading securities		—	(56,798)
Purchase of trading securities		—	(15,560)
Proceeds from sale of non-trading securities		—	2,801
Proceeds from sale of available-for-sale financial assets		<b>5,599</b>	—
Proceeds from sale of a trading security		—	15,871
Interest received		<b>3,411</b>	3,124
Dividend received		<b>9</b>	112
Net cash generated from/(used in) investing activities		<b>4,305</b>	(89,306)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>56,347</b>	133,494
Repayment of borrowings		<b>(127,338)</b>	(9,346)
Redemption from issue of convertible bonds		—	(9,725)
Issue costs of Shares of MIHL		—	(9,697)
Sales proceeds from separate listing of MIHL		—	30,093
Dividend paid to Members		—	(6,138)
Net cash (used in)/generated from financing activities		<b>(70,991)</b>	128,681
<b>Net (decrease)/increase in cash and bank overdrafts</b>		<b>(65,941)</b>	5,007
Cash and bank overdrafts at the beginning of the Year/period		<b>168,593</b>	163,586
Cash and bank overdrafts at the end of the Year/period	15	<b>102,652</b>	168,593

The notes on pages 36 to 104 are an integral part of these consolidated financial statements.

# Notes to the Financial Statements

## 1 General information

The Group carried 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 was 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, provision of network equipment and software, including self-developed operation support system, installation and implementation to maintenance and technical support for public telecommunications service providers and enterprises in selected vertical markets in the PRC, such as gaming operators, cable TV operators, electricity bureaus and governmental authorities.

Through its separate listing entity, MIHL, the Group was engaged in the research, development and delivery of innovative and quality value-added applications with an aim to increase operating effectiveness and efficiencies of enterprises.

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 and MIHL, a subsidiary with effective interest of 61.05% held had their primary listing on GEM.

These consolidated financial statements are presented in thousands of units of HK dollars (HK\$'000) unless otherwise stated. These consolidated financial statements are approved for issue by the Board on 27th March, 2006.



## 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 Year or period 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 other financial assets at fair value through profit or loss which were carried at fair value.

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

### The adoption of new or revised HKFRS

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

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

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

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

- HKAS 1 affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKAS 2, HKAS 8, HKAS 16, HKAS 21 and HKAS 28 affected certain disclosures of the financial statements.
- HKAS 7, HKAS 10, HKAS 17, HKAS 23, HKAS 27, HKAS 33, HKAS-Int 15 and HKAS-Int 21 had no material effect on the policies of the Group.
- HKAS 24 affected the identification of related parties and some other related-party disclosures.

The adoption of HKAS 32 and HKAS 39 resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss, loans and receivable and available-for-sale financial assets. It also resulted in the recognition of derivative financial instruments at fair value (note 2(h)).

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

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

- Amortised on a straight-line basis over a period of not exceeding ten years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (note 2(f)):

- The Group ceased amortisation of goodwill from 1st January, 2005;
- Accumulated amortisation as at 31st December, 2004 was eliminated with a corresponding decrease in the cost of goodwill; and
- From the Year onwards, goodwill will be tested annually for impairment, as well as when there is indication of impairment.



## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

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

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

- HKAS 39 - did not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 were determined and recognised as at 1st January, 2005.
- HKFRS 2 - only retrospective application for all equity instruments granted after 7th November, 2002 and not vested as at 1st January, 2005; and
- HKFRS 3 - prospectively after 1st January, 2005.

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

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

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

### Standards, interpretations and amendments to published standards that were not yet effective

Certain new standards, amendments and 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 but which the Group did not early adopt, as follows:

- **HKAS 19 (Amendment), Employee Benefits (effective from 1st January, 2006).** This amendment would introduce the option of an alternative recognition approach for actuarial gains and losses. It might impose additional recognition requirements for multi-employer plans where insufficient information would be available to apply defined benefit accounting. It would also add new disclosure requirements. This amendment would not be relevant to the Group as the Group did not have any defined benefit pension plan.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

#### Standards, interpretations and amendments to published standards that were not yet effective (Continued)

- **HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1st January, 2006).** The amendment would allow the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (i) the transaction would be denominated in a currency other than the functional currency of the entity entering into that transaction; and (ii) the foreign currency risk would affect consolidated profit or loss. This amendment would not be relevant to the operations of the Group, as the Group did not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as at 31st December, 2005 and 2004.
- **HKAS 39 (Amendment), The Fair Value Option (effective from 1st January, 2006).** This amendment would change the definition of financial instruments classified at fair value through profit or loss and would restrict the ability to designate financial instruments as part of this category. The Group believed that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group would apply this amendment from annual periods beginning 1st January, 2006.
- **HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1st January, 2006).** This amendment would require 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. Management considered this amendment to HKAS 39 and concluded that the Group would apply this amendment from annual periods beginning 1st January, 2006.
- **HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1st January, 2006).** These amendments would not be relevant to the operations of the Group, as the Group would not be a first-time adopter and would not carry out exploration for and evaluation of mineral resources.
- **HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1st January, 2006).** It would not be relevant to the operations of the Group.

## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

#### Standards, interpretations and amendments to published standards that were not yet effective (Continued)

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1st January, 2007).** HKFRS 7 would introduce new disclosures to improve the information about financial instruments. It would require the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It would replace HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It would be applicable to all entities that would report under HKFRS. The amendment to HKAS 1 would introduce disclosure about the level of the capital of an entity and how it would manage capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures would be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group would apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st January, 2007.
- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st January, 2006).** HKFRS-Int 4 would require the determination of whether an arrangement would be or would contain a lease to be based on the substance of the arrangement. It would require an assessment of whether: (i) fulfillment of the arrangement would be dependent on the use of a specific asset or assets (the asset); and (ii) the arrangement would convey a right to use the asset. Management would assess the impact of HKFRS-Int 4 on the operations of the Group.
- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1st January, 2006).** HKFRS-Int 5 would not be relevant to the operations of the Group.
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 1st December, 2005).** HK(IFRIC)-Int 6 would not be relevant to the operations of the Group.

# Notes to the Financial Statements

## 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 (including special purpose 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 as 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. 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 income statement (see note 2(f)(i)).

Inter-company transactions, balances and unrealised gains on transactions between group companies were eliminated. Unrealised losses were also eliminated but considered an impairment indicator 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, the investments in subsidiaries were stated at cost less provision for impairment losses. 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 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 (see note 2(f)(i)).

The share of the 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 has 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 interests 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 was changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, the interests in the associates was stated at cost less provision for impairment losses. The results of associated companies 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 and presentation currency*

Items included in the financial statements of each of the entities of the Group were measured using the currency of the primary economic environment in which the entity operated (the "functional currency"). The consolidated financial statements were presented in HK dollars, which was the functional and presentation currency of the Company.



# Notes to the Financial Statements

## 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 income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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 were recognised in profit or loss, and other changes in 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 profit or loss 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 fair value reserve in equity.

#### (iii) *Group companies*

The results and financial position of all the group entities (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, and of borrowings and other currency instruments designated as hedges of such investments, were taken to the equity of the shareholders. When a foreign operation was 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) Property, plant and equipment

Buildings comprised a retail outlet. Buildings were shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation was eliminated against the gross carrying amount of the asset and the net amount was restated to the revalued amount of the asset. All other property, plant and equipment were stated at historical cost less depreciation and impairment losses. Historical cost included expenditure that was directly attributable to the acquisition of the items. Cost might also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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. All other repairs and maintenance were expensed in the income statement during the financial period in which they were incurred.

Increases in the carrying amount arising on revaluation of buildings were credited to other reserves in equity of the Members. Decreases that offset previous increases of the same asset were charged against other reserves directly in equity; all other decreases were expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the original cost of the asset was transferred from 'other reserve' to 'accumulated losses' or 'retained earnings'.

Depreciation of property, plant and equipment was calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

– Buildings	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 carrying amount. These were included in the income statement. When revalued assets were sold, the amounts included in other reserves were transferred to accumulated losses or retained earnings.

# Notes to the Financial Statements

## 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 subsidiaries and associates of the Group at the date of acquisition. Goodwill on acquisition of subsidiaries was included in 'intangible assets'. Goodwill on acquisitions of associates was included in "investments in associates". 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 cash-generating units for the purpose of impairment testing. The allocation was made to those cash-generating units or groups of cash-generating units 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 licenses 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 or licensing period, whichever is shorter.

Costs associated with developing or maintaining computer software programmes were recognised as an expense as incurred. Costs that were directly associated with the production 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. Direct costs included the software development employee costs 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 non-financial assets

Assets that had an indefinite useful life were not subject to amortisation, which were at least tested annually for impairment and were reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount might not be recoverable. 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 a fair value less costs of the asset to sell and value in use. For the purposes of assessing impairment, assets were grouped at the lowest levels for which there were separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment were reviewed for possible reversal of the impairment at each reporting date.

## 2 Summary of significant accounting policies (Continued)

### (h) Financial assets

From 1st July, 2003 to 31st December, 2004:

The Group classified its investments in securities, other than subsidiaries and associates, as non-trading securities and trading securities.

#### (i) *Non-trading securities*

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amounts of the relevant security, together with any surplus or deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired the cumulative loss recorded in the revaluation reserve was taken to the income statement.

#### (ii) *Trading securities*

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

From 1st January, 2005 onwards:

The Group classified its financial assets in the following categories: other financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition and re-evaluated this designation at every reporting date.

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

This category had two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset was classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives were also categorised as held for trading unless they were designated as hedges. Assets in this category were classified as current assets if they were either held for trading or were expected to be realised within twelve months of the balance sheet date.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### (h) Financial Assets (Continued)

#### (ii) *Loans and receivables*

Loans and receivables 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 receivables were classified as “trade and bills receivable” and “other receivables” in the balance sheet (note 2(j)).

#### (iii) *Held-to-maturity investments*

Held-to-maturity investments were non-derivative financial assets with fixed or determinable payments and fixed maturities that the management of the Group had the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets were included in non-current assets, except for those with maturities less than twelve months from the balance sheet date, which were classified as current assets. During the Year, the Group did not hold any investments in this category.

#### (iv) *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 sales of investments 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. Investments were derecognised when the rights to receive cash flows from the investments had expired or had been 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 receivables and held-to-maturity investments 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 including interest and dividend income, 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)

#### (iv) *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 were recognised in profit or loss, and other changes in carrying amount were recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale 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. Dividends on available-for-sale equity instruments were recognised in the income statement when the right of the Group to receive payments was established.

The fair values of quoted investments were based on current bid prices. If the market for a financial asset was not active (and for unlisted securities), the Group established fair value by using valuation techniques. These included the use of recent arm's length transactions, reference to other instruments that were substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 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 the income statement - was removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments were not reversed through the income statement. Impairment testing of trade receivables was described in note 2(j).

### (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.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### (j) Trade 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 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 of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision was recognised in the income statement within administrative expenses.

### (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) Borrowings

Borrowings were recognised initially at fair value, net of transaction costs incurred. Transaction costs were incremental costs that were directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings were subsequently stated at amortised cost; 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 has 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)

### (n) 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 reverse in the foreseeable future.

### (o) Employee benefits

#### (i) *Pension obligations*

Group companies operated various pension schemes. The schemes were generally funded through payments to insurance companies or trustee-administered funds. The Group had defined contribution plans. A defined contribution plan was a pension plan under which the Group paid fixed contributions into a separate entity. The Group had no legal or 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.

For defined contribution plans, the Group paid contributions to publicly or privately administered pension insurance 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 and were reduced by contributions forfeited by those employees who left the scheme prior to vesting fully in the contributions. Prepaid contribution were recognised as an asset to the extent that a cash refund or a reduction in the future payments was available.

# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### (o) Employee benefits (Continued)

#### (ii) *Shared-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 become exercisable. At each balance sheet date, the entity revised its estimates of the number of options that were expected to become exercisable. 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)

### (p) Provisions

Provisions for environmental restoration, restructuring costs and legal claims were recognised when: the Group had a present legal or constructive obligation as a result of past events, it was more likely than not 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.

### (q) Revenue recognition

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

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

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

#### (ii) *Sale of goods – wholesale*

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

#### (iii) *Sale of goods – retail*

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



# Notes to the Financial Statements

## 2 Summary of significant accounting policies (Continued)

### (q) Revenue recognition (Continued)

#### (iv) *Digital image processing management solutions*

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

#### (v) *Provision of services*

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

#### (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 on a straight-line basis over the period of the lease.

### (r) 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 in the income statement on a straight-line basis over the period of the lease.

Equipment leased out under operating leases were 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. Rental income (net of any incentives given to leases) was recognised on a straight-line basis over the period of the lease.

## 2 Summary of significant accounting policies (Continued)

### (s) Dividend distribution

Dividend distribution to the Members was recognised as a liability in the financial statements of the Group in the period in which the dividends were approved by the Members.

### (t) Research and development

Research expenditure was expensed as incurred. Costs incurred on development projects (relating to design and testing of new or improved products) were recognised as intangible assets when it was probable that the project would be a success considering its commercial and technological feasibility, and costs could be measured reliably. Other development expenditures were expensed as incurred. Development costs previously recognised as an expense were not recognised as an asset in a subsequent period. Development costs with a finite useful life that had been capitalised were amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

### (u) Borrowing costs

Borrowing costs were expensed in the income statement in which they were incurred.

### (v) Comparatives

Certain comparative figures had been adjusted for the impact of the relevant new HKFRSs as set out in note 2(a).

# Notes to the Financial Statements

## 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 and price risk), credit risk, liquidity risk and cash flow interest rate 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 Directors. The Directors identified, evaluated and hedged 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 the HK dollar. Foreign exchange risk arose from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Foreign exchange risk arose when future commercial transactions or recognised assets or liabilities were denominated in a currency that was not the functional currency of the Company. The Directors were responsible for managing the net position in each foreign currency.

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 in Europe was managed primarily through borrowings denominated in the relevant foreign currencies.

##### – Price risk

The Group was exposed to equity securities price risk because investments held by the Group were classified on the consolidated balance sheet as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group was not exposed to commodity price risk.

#### (ii) *Credit risk*

The Group had no significant concentrations of credit risk. It had policies in place to ensure that wholesale sales of products were made to customers with an appropriate credit history. Sales to retail customers were made in cash.

#### (iii) *Liquidity risk*

Prudent liquidity risk management implied maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Directors aimed to maintain flexibility in funding by keeping committed credit lines available.

### 3 Financial risk management (Continued)

#### (a) Financial risk factors (Continued)

##### (iv) *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 issued at fixed rates exposed the Group to fair value interest rate risk. Group policy was to maintain approximately 50% of its borrowings in fixed rate instruments.

#### (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.

The fair value of financial instruments that were not traded in an active market was determined by using valuation techniques. The Group used a variety of methods and made assumptions that were based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, were used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and payables were assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes 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.

# Notes to the Financial Statements

## 4 Critical accounting estimates and judgements

Estimates and judgements were continually 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 were 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 cash-generating units were determined based on value-in-use calculations. These calculations required the use of estimates (note 7).

#### (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.





## 4 Critical accounting estimates and judgements (Continued)

### (a) Critical accounting estimates and assumptions (Continued)

#### (iii) *Estimated fair value of derivative and available-for-sale financial assets*

The fair value of financial instruments traded in active markets 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 closing bid price at the balance sheet date.

The fair value of financial instruments that were not traded in an active market was determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date.

#### (iv) *Impairment of financial assets*

The Group followed the guidance of HKAS 39 on determining when an investment was other-than-temporarily impaired. This determination required significant judgements. In making these judgements, 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 for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

## 5 Segment information

### Primary reporting format - business segments

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

- Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods;
- Provision of digital image processing management solutions; and
- Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS.

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

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

# Notes to the Financial Statements

## 5 Segment information (Continued)

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

The segment results for the eighteen months ended 31st December, 2004 were as follows:

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods 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	Unallocated HK\$'000	Group HK\$'000
Sales	532,339	17,694	39,850	—	589,883
Operating loss	(118,883)	(21,487)	(15,352)	(19,447)	(175,169)
Deemed disposal gain for separate listing of MIHL					17,953
Impairment of goodwill	(7,780)	—	(18,151)	—	(25,931)
Finance costs (note 25)					(4,346)
Share of losses of associates (note 9)					(1,511)
<b>Loss before income tax</b>					(189,004)
Income tax expense (note 26)					(1,898)
<b>Loss for the eighteen months ended 31st December, 2004</b>					(190,902)

## 5 Segment information (Continued)

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

The segment results for the Year were as follows:

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods 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	Unallocated HK\$'000	Group HK\$'000
<b>Sales</b>	<u>462,225</u>	<u>48,050</u>	<u>85,156</u>	<u>—</u>	<u>595,431</u>
Operating loss	(4,728)	(7,781)	(3,164)	(14,635)	(30,308)
Impairment of goodwill	—	(512)	—	—	(512)
Finance costs (note 25)					(7,511)
Share of profits of associates (note 9)					<u>202</u>
<b>Loss before income tax</b>					(38,129)
Income tax expense (note 26)					<u>(2,419)</u>
<b>Loss for the Year</b>					<u><u>(40,548)</u></u>

# Notes to the Financial Statements

## 5 Segment information (Continued)

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

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

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods 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	Group HK\$'000
Eighteen months ended 31st December, 2004				
Depreciation (note 6)	6,241	612	1,188	8,041
Amortisation (note 7)	1,310	1,563	4,466	7,339
Impairment of goodwill (note 7)	7,780	—	18,151	25,931
Impairment of trade receivables (note 12)	51,170	—	—	51,170
Impairment of software licence (note 7)	—	9,900	—	9,900
Impairment of interests in associates (note 9)	2,235	—	—	2,235
Impairment of inventories (note 13)	49,241	—	405	49,646
Year				
Depreciation (note 6)	4,674	598	1,758	7,030
Amortisation (note 7)	—	—	648	648
Impairment of goodwill (note 7)	—	512	—	512
Impairment of trade receivables (note 12)	6,980	—	360	7,340
Impairment of software licence (note 7)	—	78	—	78
Impairment of inventories (note 13)	7,354	—	—	7,354

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

## 5 Segment information (Continued)

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

The segment assets and liabilities as at 31st December, 2004 and capital expenditure for the eighteen months then ended were as follows:

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods 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	Unallocated HK\$'000	Group HK\$'000
Assets	373,725	19,124	112,826	77,865	583,540
Associates	1,630	—	—	—	1,630
<b>Total assets</b>	<b>375,355</b>	<b>19,124</b>	<b>112,826</b>	<b>77,865</b>	<b>585,170</b>
<b>Liabilities</b>	<b>172,133</b>	<b>4,879</b>	<b>70,814</b>	<b>152,539</b>	<b>400,365</b>
<b>Capital expenditure</b>	<b>11,955</b>	<b>13,423</b>	<b>39,416</b>	<b>—</b>	<b>64,794</b>



# Notes to the Financial Statements

## 5 Segment information (Continued)

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

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

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods 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	Unallocated HK\$'000	Group HK\$'000
Assets	341,174	28,448	92,087	60,154	521,863
Associates	1,818	14	—	—	1,832
<b>Total assets</b>	<b>342,992</b>	<b>28,462</b>	<b>92,087</b>	<b>60,154</b>	<b>523,695</b>
<b>Liabilities</b>	<b>274,471</b>	<b>20,678</b>	<b>58,856</b>	<b>37,926</b>	<b>391,931</b>
<b>Capital expenditure</b>	<b>1,074</b>	<b>593</b>	<b>3,048</b>	<b>—</b>	<b>4,715</b>

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

Segment liabilities comprised operating liabilities. They mainly excluded borrowings.

Capital expenditure comprised additions to property, plant and equipment (note 6) and intangible assets (note 7), including additions resulting from acquisitions through business combinations (notes 6, 7 and 35).

## 5 Segment information (Continued)

### Secondary reporting format - geographical segments

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

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

There were no sales between the geographical segments.

### Sales

	<b>Year HK\$'000</b>	Eighteen months ended 31st December, 2004 HK\$'000
Mainland China	<b>217,859</b>	400,906
Hong Kong and Macao	<b>292,416</b>	149,127
Europe	<b>85,156</b>	39,850
	<b>595,431</b>	589,883

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

### Total assets

	<b>2005 HK\$'000</b>	2004 HK\$'000
Mainland China	<b>100,969</b>	193,929
Hong Kong and Macao	<b>268,653</b>	198,920
Europe	<b>92,087</b>	112,826
	<b>461,709</b>	505,675
Associates (note 9)	<b>1,832</b>	1,630
Unallocated assets	<b>60,154</b>	77,865
	<b>523,695</b>	585,170

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

# Notes to the Financial Statements

## 5 Segment information (Continued)

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

#### Capital expenditures

	<b>Year HK\$'000</b>	Eighteen months ended 31st December, 2004 HK\$'000
Mainland China	<b>210</b>	1,368
Hong Kong and Macao	<b>1,457</b>	24,010
Europe	<b>3,048</b>	39,416
	<b>4,715</b>	64,794

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

#### Analysis of sales by category

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

## 6 Property, plant and equipment - Group

	Land HK\$'000	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
<b>As at 1st July, 2003</b>							
Cost	—	—	3,899	10,453	2,333	1,401	18,086
Accumulated depreciation	—	—	(2,642)	(6,206)	(1,189)	(1,383)	(11,420)
Net book amount	—	—	1,257	4,247	1,144	18	6,666
<b>Eighteen months ended 31st December, 2004</b>							
Opening net book amount	—	—	1,257	4,247	1,144	18	6,666
Exchange differences	—	—	—	257	15	—	272
Acquisition of subsidiaries (note 35)	2,020	280	51	2,820	189	281	5,641
Additions	—	—	2,013	9,141	143	210	11,507
Disposals (note 31)	—	—	—	(390)	—	—	(390)
Depreciation (note 22)	—	(38)	(1,134)	(5,886)	(674)	(309)	(8,041)
Closing net book amount	2,020	242	2,187	10,189	817	200	15,655
<b>As at 31st December, 2004</b>							
Cost	2,020	280	5,040	57,309	2,895	491	68,035
Accumulated depreciation	—	(38)	(2,853)	(47,120)	(2,078)	(291)	(52,380)
Net book amount	2,020	242	2,187	10,189	817	200	15,655
<b>Year</b>							
Opening net book amount	2,020	242	2,187	10,189	817	200	15,655
Exchange differences	—	—	—	(298)	(26)	—	(324)
Additions	—	—	773	2,684	829	—	4,286
Depreciation (note 22)	—	19	(1,011)	(5,538)	(374)	(126)	(7,030)
Closing net book amount	2,020	261	1,949	7,037	1,246	74	12,587
<b>As at 31st December, 2005</b>							
Cost	2,020	280	5,569	51,751	3,435	491	63,546
Accumulated depreciation	—	(19)	(3,620)	(44,714)	(2,189)	(417)	(50,959)
Net book amount	2,020	261	1,949	7,037	1,246	74	12,587

# Notes to the Financial Statements

## 6 Property, plant and equipment - Group (Continued)

The buildings of the Group were last revalued as at 1st September, 2004, which was the date of acquisition. Valuation was made on the basis of open market value carried out by Sallmanns (Far East) Limited, an independent firm of chartered surveyors.

Depreciation expense was expensed in administrative expenses in the income statement.

Lease rentals amounting to approximately HK\$2,524,000 (eighteen months ended 31st December, 2004: HK\$652,000) relating to the lease of leased equipment were included in the income statement.

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

If buildings were stated on the historical cost basis, the amounts would be as follows:

	<b>2005 HK\$'000</b>	2004 HK\$'000
Cost	<b>280</b>	280
Accumulated depreciation	<b>(19)</b>	(38)
Net book amount	<b>261</b>	242



## 7 Intangible assets – Group

	<b>Goodwill</b> HK\$'000	<b>Software Licence (note (a))</b> HK\$'000	<b>Total</b> HK\$'000
<b>As at 1st July, 2003</b>			
Cost	2,287	—	2,287
Accumulated amortisation and impairment	(985)	—	(985)
Net book amount	<u>1,302</u>	<u>—</u>	<u>1,302</u>
<b>Eighteen months ended 31st December, 2004</b>			
Opening net book amount	1,302	—	1,302
Exchange differences	7,047	153	7,200
Additions	—	11,567	11,567
Acquisition of subsidiaries (note 35)	89,507	1,492	90,999
Amortisation (note (b)) (note 22)	(5,506)	(1,833)	(7,339)
Impairment charge (note (c)) (note 22)	(25,931)	(9,900)	(35,831)
Closing net book amount	<u>66,419</u>	<u>1,479</u>	<u>67,898</u>
<b>As at 31st December, 2004</b>			
Cost	99,507	20,877	120,384
Accumulated amortisation and impairment	(33,088)	(19,398)	(52,486)
Net book amount	<u>66,419</u>	<u>1,479</u>	<u>67,898</u>
<b>Year</b>			
Opening net book amount	66,419	1,479	67,898
Exchange differences	(8,741)	(182)	(8,923)
Additions	—	428	428
Amortisation (note (b)) (note 22)	—	(648)	(648)
Impairment charge (note (c)) (note 22)	(512)	(78)	(590)
Closing net book amount	<u>57,166</u>	<u>999</u>	<u>58,165</u>
<b>As at 31st December, 2005</b>			
Cost	87,705	20,015	107,720
Accumulated amortisation and impairment	(30,539)	(19,016)	(49,555)
Net book amount	<u>57,166</u>	<u>999</u>	<u>58,165</u>

# Notes to the Financial Statements

## 7 Intangible assets – Group (Continued)

Notes:

- (a) Software licence included newly internally generated capitalised software development costs which was not in use in the current year. As at 31st December, 2005, the gross carrying amount was approximately HK\$428,000 and there was no accumulated amortisation. No amortisation expense was charged in the income statement for the Year.
- (b) Amortisation was included in the administrative expenses in the income statement.
- (c) The carrying amount of the segment was reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss was disclosed separately in the income statement.

### Impairment tests for goodwill

Goodwill was allocated to the cash-generating units (CGUs) of the Group identified according to region of operation and business segment.

A segment-level summary of the goodwill allocation was presented below.

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods 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	Group HK\$'000
Mainland China	1,115	—	—	1,115
Europe	—	—	56,051	56,051
	<u>1,115</u>	<u>—</u>	<u>56,051</u>	<u>57,166</u>

The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate for the business in which the CGU operated.

## 7 Intangible assets – Group (Continued)

### Impairment tests for goodwill (Continued)

Key assumptions used for value-in-use calculations

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods 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
Discount rate	14.60%	15.4%	14.50%

The discount rates were used for the analysis of each CGU within the business segment.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used were consistent with the forecasts included in industry reports. The discount rates used were pre-tax and reflect specific risks relating to the relevant segments.

The impairment expense arose in the CGUs in Hong Kong, Macao and Europe. This was a result of an acquisition of subsidiaries in the prior years which continued to make significant losses.

# Notes to the Financial Statements

## 8 Investments in subsidiaries and amounts due from/to subsidiaries

### (a) Investments in subsidiaries

	Company	
	2005 HK\$'000	2004 HK\$'000
Investments, at cost:		
– Shares listed in Hong Kong	5,350	5,350
– Unlisted shares	68,568	68,568
	<b>73,918</b>	<b>73,918</b>
Market value of listed shares	<b>19,597</b>	<b>27,436</b>

The following was a list of the principal subsidiaries as at 31st December, 2005:

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”） (note (i))	PRC, limited liability company	Research and development of software and related software consultancy services in Mainland China	US\$510,000	83%
珠海萬佳達軟件開發有限公司（“ZMSD”） (note (i))	PRC, limited liability company	Provision of computer software products, computer network system engineering, research and development and sale and provision of related services and maintenance in Mainland China	HK\$1,000,000	61%

## 8 Investments in subsidiaries and amounts due from/to subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2005: (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
廣州市萬珈訊科技有限公司 (note (ii))	PRC, limited liability company	Provision of computer software products, computer network system engineering, research and development and sale and provision of related services and maintenance in Mainland China	HK\$1,600,000	61%
廣州市愛達利發展有限公司 (“GVDL”) (note (ii))	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”) (note (ii))	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”) (note (ii))	PRC, limited liability company	Design, sale and implementation of data networking systems and provision of related engineering services in Mainland China	HK\$3,000,000	100%
Communications Appliances Ou Chung Limited	Macao, limited liability company	Sale of mobile phones in Macao	MOP3,002,000	100%
Guangzhou Thinker Vodatel Development Company Limited (note (ii))	PRC, limited liability company	Research and development of wireless data communications and internet related products in Mainland China	US\$3,000,000	60%



# Notes to the Financial Statements

## 8 Investments in subsidiaries and amounts due from/to subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2005: (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
Multi Asia (HK) Limited	Hong Kong, limited liability company	Dormant	1 ordinary share of HK\$1 each	100%
Mega Datatech Limited (note (i))	Macao, limited liability company	Provision of computer software, hardware and system integration in Macao	MOP100,000	100%
MagalInfo China Holdings Limited (note (i))	BVI, limited liability company	Investment holding in Mainland China	1,000 ordinary shares of US\$1 each	61%
MegalInfo Holdings Limited (note (i))	Bermuda, limited liability company	Investment holding in Hong Kong	535,000,000 ordinary shares of HK\$0.01 each	61%
MegalInfo Limited (note (i))	BVI, limited liability company	Investment holding and provision of digital image processing management solutions in Macao	2,000 ordinary shares of US\$1 each	61%
MegalInfo Software Limited (note (i))	BVI, limited liability company	Owner of intellectual property rights in Macao	1,000 ordinary shares of US\$1 each	61%
MegalInfo Solutions Holdings Limited (note (i))	BVI, limited liability company	Owner of intellectual property rights in Mainland China	1,000 ordinary shares of US\$1 each	61%
MegalInfo Technology Limited (note (i))	Hong Kong, limited liability company	Investment holding in Macao	1,000 ordinary shares of HK\$1 each	61%
MegalInfo (Hong Kong) Limited (note (i))	Hong Kong, limited liability company	Investment holding in Mainland China and Macao	1,000 ordinary shares of HK\$0.10 each	61%

## 8 Investments in subsidiaries and amounts due from/to subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2005: (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
PE Research and Development Limited (note (i))	Macao, limited liability company	Investment holding in Mainland China	MOP25,000	61%
Power Express (Macao) Limited (note (i))	Macao, limited liability company	Sale of communications equipment in Macao	MOP25,000	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 (note (i))	Germany, limited liability company	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in Germany	DM25,000	60%
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	Hong Kong, limited liability company	Dormant	1 ordinary share of HK\$1 each	60%

# Notes to the Financial Statements

## 8 Investments in subsidiaries and amounts due from/to subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2005: (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
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 ordinary shares of US\$1 each	100% <sup>1</sup>
Vodatel Integrated Solutions (Vietnam) Limited	Vietnam, limited liability company	Design sale and implementation of data networking systems and provision of related engineering services in Vietnam	USD20,000	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%

## 8 Investments in subsidiaries and amounts due from/to subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2005: (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 Systems Inc. - Macao Commercial Offshore (Note (i))	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%

<sup>1</sup> 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 24.26% of the net assets of the Group.
- (ii) GVDL held 81.82% interest directly in GZIC.
- (b) The amounts due from/to subsidiaries were unsecured, interest-free and had no fixed terms of repayment.

## 9 Interests in associates - Group

	Year HK\$'000	Eighteen months ended 31st December, 2004 HK\$'000
Beginning of the Year/period	1,630	5,257
Share of the results of the associates		
- profits/(losses) before taxation	221	(1,507)
- taxation	(19)	(4)
	202	(1,511)
Impairment of interests in associates	—	(2,235)
	1,832	1,511
New associates	—	119
End of the Year/period	1,832	1,630

# Notes to the Financial Statements

## 9 Interests in associates - Group (Continued)

- (a) The interests of the Group in its principal associates, all of which were unlisted, were as follows:

Name	Particulars of issued shares held	Place of incorporation	Assets	Liabilities	Revenues	Profits/(losses)	% Interest held
Eighteen months ended 31st December, 2004							
Guangzhou LG Tops Communication Technologies Co., Ltd. (note (ii))	US\$6,000,000	PRC	17,654	(4,418)	11,111	(12,803)	12
Source Tech Limited	MOP100,000	Macao	472	(181)	1,442	55	45
			<u>18,126</u>	<u>(4,599)</u>	<u>12,553</u>	<u>(12,748)</u>	
Year							
GLGTCT (note (ii))	US\$6,000,000	PRC	6,740	(454)	—	(10,132)	12
STL	MOP100,000	Macao	1,533	(791)	4,170	450	45
			<u>8,273</u>	<u>(1,245)</u>	<u>4,170</u>	<u>(9,682)</u>	

The Group did not recognise losses amounting to approximately HK\$1,216,000 (eighteen months ended 31st December, 2004: HK\$Nil) for GLGTCT. The accumulated losses not recognised were approximately HK\$1,216,000 (eighteen months ended 31st December, 2004: HK\$Nil).

Note:

- (i) GTVD held 20% interest directly in GLGTCT.



## 10 Available-for-sale financial assets and loaned assets - Group

	2005 HK\$'000
Beginning of the Year (note 11)	62,688
Additions	8,300
Disposals	(2,490)
Revaluation deficit transfer to equity (note 17(a))	(10,238)
End of the Year	58,260
Less: non-current portion	(58,260)
Current portion	—

There were disposals of listed securities of approximately HK\$2,490,000 and no impairment provisions on available-for-sale financial assets during the Year.

Available-for-sale financial assets and loaned assets included the following:

	2005 HK\$'000
Equity securities:	
- Listed – Hong Kong (note)	12,767
- Unlisted	6,896
Available-for-sale financial assets	19,663
Unlisted debt securities traded on inactive markets and of private issuers:	
- Loaned assets (note 19)	38,597
	58,260
Market value of listed securities	12,767

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 telecommunications and related services in Hong Kong and other Asian countries	472,811,363 ordinary shares of US\$0.01 each	20%

# Notes to the Financial Statements

## 10 Available-for-sale financial assets and loaned assets - Group (Continued)

The Group had 20% interest in MTNHL 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.

## 11 Non-trading securities – Group

	2004 HK\$'000
Equity securities:	
Listed in Hong Kong	19,172
Market value of listed equity securities	19,172
Unlisted equity securities	48,526
Less: impairment charge	(3,002)
	64,696
Convertible notes, unlisted (note)	7,754
	72,450

As at 1st January, 2005, the balance of non-trading securities of approximately HK\$72,450,000 was classified as available-for-sale financial assets of approximately HK\$62,688,000 (note 10), loans and receivable of approximately HK\$3,000,000, other financial assets at fair value through profit or loss of approximately HK\$7,889,000 and opening reserves adjustment of approximately HK\$1,127,000.

Note: The convertible notes bear interest at 1% per annum on the principal amount of the notes outstanding from time to time payable half yearly in arrears on 31st March and 30th September in each year. The Company shall have the right to convert the whole (or part) of the principal amount of the notes into fully-paid ordinary shares of the notes issuer at initial conversion prices specified in the subscription agreement dated 28th March, 2002 and 3rd August, 2002 respectively.

## 12 Trade and other receivables - Group

	2005 HK\$'000	2004 HK\$'000
Trade and bills receivables	329,195	265,239
Less: provision for impairment of receivables	(87,284)	(86,703)
Trade and bills receivables - net	241,911	178,536
Other receivables, deposits and prepayments	27,817	32,499
	<b>269,728</b>	<b>211,035</b>

The fair value of trade and other receivables were as follows:

	2005 HK\$'000	2004 HK\$'000
Trade and bills receivables	241,911	178,536
Other receivables, deposits and prepayments	27,817	32,499
	<b>269,728</b>	<b>211,035</b>

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

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

	2005 HK\$'000	2004 HK\$'000
Within three months	175,538	143,579
>Three months but ≤ six months	46,327	20,544
>Six months but ≤ twelve months	15,703	23,718
Over twelve months	91,627	77,398
	<b>329,195</b>	<b>265,239</b>

There was no concentration of credit risk with respect to trade and bills receivables, as the Group had a large number of customers, internationally dispersed.

The Group recognised a loss of approximately HK\$7,340,000 (eighteen months ended 31st December, 2004: approximately HK\$51,170,000) for the impairment of its trade and bills receivables during the Year. The loss was included in administrative expenses in the income statement.

# Notes to the Financial Statements

## 13 Inventories - Group

	2005 HK\$'000	2004 HK\$'000
Networking and image processing equipment	17,980	45,134
Mobile phones	639	2,458
	<u>18,619</u>	<u>47,592</u>

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK\$443,912,000 (eighteen months ended 31st December, 2004: approximately HK\$439,452,000).

As at 31st December, 2005, the carrying amount of inventories that were carried at net realisable value amounted to approximately HK\$13,472,000 (2004: approximately HK\$11,889,000).

The Group recognised a loss of approximately HK\$7,354,000 (eighteen months ended 31st December, 2004: approximately HK\$49,646,000) for the impairment of its inventories during the Year. The loss was included in cost of sales in the income statement.

## 14 Other financial assets at fair value through profit or loss - Group

	2005 HK\$'000
Listed securities:	
- Equity securities - Hong Kong	592
Market value of listed securities	<u>592</u>

The carrying amounts of the above financial assets were classified as follows:

	2005 HK\$'000
Designated as fair value through profit or loss on initial recognition	<u>592</u>

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 (note 31).

Changes in fair value of other financial assets at fair value through profit or loss were recorded in other gains – net in the income statement (note 21).

## 15 Cash and cash equivalents

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash at bank and in hand	73,475	75,183	236	2,402
Short-term bank deposits	29,579	93,647	—	—
	<b>103,054</b>	<b>168,830</b>	<b>236</b>	<b>2,402</b>

The effective interest rate on short-term bank deposits was 4% (2004: 1%); these deposits had an average maturity of 14 days.

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

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and cash equivalents	103,054	168,830	236	2,402
Bank overdrafts (note 19)	(402)	(237)	—	—
	<b>102,652</b>	<b>168,593</b>	<b>236</b>	<b>2,402</b>

## 16 Share capital

	Number of Shares	Ordinary shares HK\$'000	Share premium HK\$'000	Total HK\$'000
As at 1st July, 2003, 31st December, 2004 and 31st December, 2005	613,819,000	61,382	97,676	159,058

The total authorised number of ordinary shares was 2,000,000,000 (2004: 2,000,000,000) with a par value of HK\$0.10 per Share (2004: HK\$0.10 per Share). All issued Shares were fully paid.

# Notes to the Financial Statements

## 16 Share capital (Continued)

### Share options

Share options were granted to all executive Directors. 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 would expire 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 representing up to a maximum of 10% of 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	
	2005	2004
Beginning of the Year/period	<b>14,466,000</b>	17,138,000
Lapsed <sup>1</sup>	<b>(1,570,000)</b>	(2,672,000)
End of the Year/period	<b>12,896,000</b>	14,466,000

<sup>1</sup> Options lapsed by reason of the grantees ceasing to be full-time employees of the Group.

Share options outstanding at 31st December, 2005 had an expiry date on 29th June, 2006 at an exercise price of HK\$0.42 per Share.



## 17 Other reserves

### (a) Group

	Capital redemption reserve HK\$'000	Non-trading securities/ 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 July, 2003	702	(4,158)	35,549	108	49	32,250
Revaluation	—	5,516	—	—	—	5,516
Reserves transferred to income statement upon disposal of non-trading securities	—	3,957	—	—	—	3,957
Currency translation differences	—	—	—	2,926	—	2,926
Balance as at 31st December, 2004	<u>702</u>	<u>5,315</u>	<u>35,549</u>	<u>3,034</u>	<u>49</u>	<u>44,649</u>
Balance as at 1st January, 2005, as per above	702	5,315	35,549	3,034	49	44,649
Opening adjustment for the adoption of HKAS 39 (note 2(a))	—	(2,007)	—	—	—	(2,007)
Balance as at 1st January, 2005, as restated	702	3,308	35,549	3,034	49	42,642
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)
Balance as at 31st December, 2005	<u>702</u>	<u>(7,526)</u>	<u>35,549</u>	<u>248</u>	<u>49</u>	<u>29,022</u>

# Notes to the Financial Statements

## 17 Other reserves (Continued)

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 and also an existing balance on the share premium account of a subsidiary.
- (ii) The Macao Commercial Code required a company incorporated in Macao to set aside a minimum of 25% of the profit after taxation 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.

### (b) Company

	<b>Contributed surplus</b> HK\$'000 (Note (i))	<b>Capital redemption reserve</b> HK\$'000	<b>Total</b> HK\$'000
As at 1st July, 2003, 31st December, 2004 and 31st December, 2005	73,718	702	74,420

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, 2005 amounted to approximately HK\$51,072,000 (2004: HK\$62,790,000).

## 18 Trade and other payables - Group

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Trade and bills payables (note)	<b>183,884</b>	115,397
Other payables and accruals	<b>79,146</b>	84,426
	<b>263,030</b>	199,823

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

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

Note:

Included in trade and bills payables was approximately HK\$493,000 (2004: HK\$358,000), which was due to a related company owned by José Manuel dos Santos, a Director, and approximately HK\$375,000 (2004: HK\$ Nil) which was due to José Manuel dos Santos. The amount was unsecured, interest-free with no fixed term of repayment.

# Notes to the Financial Statements

## 19 Borrowings - Group

	2005 HK\$'000	2004 HK\$'000
<b>Non-current</b>		
Other loan, unsecured	—	14,854
Bank borrowings, secured (note 10)	35,010	—
	<u>35,010</u>	<u>14,854</u>
<b>Current</b>		
Other loan, unsecured	13,783	—
Bank overdrafts (note 15)	402	237
Bank borrowings, unsecured	25,031	131,961
	<u>39,216</u>	<u>132,198</u>
<b>Total borrowings</b>	<u>74,226</u>	<u>147,052</u>

Secured bank borrowings of approximately HK\$35,010,000 (2004: HK\$Nil). Bank borrowings were secured by unlisted debt securities traded on inactive markets and of private issuers of approximately HK\$38,597,000 (note 10).

## 19 Borrowings - Group (Continued)

The maturity of borrowings was as follows:

	Bank borrowings and overdrafts		Other loan	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	25,433	132,198	13,783	—
Between one and two years	35,010	—	—	14,854
	<b>60,443</b>	<b>132,198</b>	<b>13,783</b>	<b>14,854</b>

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

	2005			2004		
	HK\$	EURO	US\$	HK\$	EURO	US\$
Bank overdrafts	9%	—	—	4%	—	—
Bank borrowings	—	—	8%	—	—	4%
Other Loan	—	8%	—	—	8%	—

The carrying amounts of all borrowings approximated their fair value.

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

	Group	
	2005 HK\$'000	2004 HK\$'000
HK dollar	402	—
US dollar	60,041	132,198
Euro	13,783	14,854
	<b>74,226</b>	<b>147,052</b>

# Notes to the Financial Statements

## 19 Borrowings - Group (Continued)

The Group had the following undrawn borrowing facilities:

	2005 HK\$'000	2004 HK\$'000
Floating rate		
– expiring beyond one year	46,512	99,792
Fixed rate		
– expiring beyond one year	—	32,200
	<u>46,512</u>	<u>131,992</u>

The facilities expiring within one year were annual facilities subject to review at various dates during 2006.

## 20 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\$28,726,000 (2004: approximately HK\$25,986,000) in respect of losses amounting to approximately HK\$109,659,000 (2004: approximately HK\$90,988,000) that could be carried forward against future taxable income. The tax losses would expire according to the prevailing tax laws and regulations in the jurisdictions in which the Group operated.

There was no other material unprovided deferred income tax as at 31st December, 2005.



## 21 Other gains - net

	Year HK\$'000	Eighteen months ended 31st December, 2004 Hk\$'000
Other financial assets at fair value through profit or loss:		
- unrealised fair value losses	(1,384)	—
Interest income	3,571	3,124
Dividend income	9	112
Gains on disposal of available-for-sale financial assets/ non-trading securities	3,704	311
Service fee income	2,973	1,478
Loan waiver income	3,739	—
Other gains	706	701
	<b>13,318</b>	<b>5,726</b>

The investment income from listed and unlisted investments for the Year were approximately HK\$9,000 (eighteen months ended 31st December, 2004: HK\$112,000) and approximately HK\$2,187,000 (eighteen months ended 31st December, 2004: HK\$3,124,000) respectively.

# Notes to the Financial Statements

## 22 Expenses by nature

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

	Year HK\$'000	Eighteen months ended 31st December, 2004 HK\$'000
Amortisation of goodwill (note 7)	—	5,506
Amortisation of software licence (note 7)	648	1,833
Auditors' remuneration	2,829	5,378
Cost of inventories (note 13)	443,912	439,452
Depreciation of fixed assets (note 6)	7,030	8,041
Impairment of software licence (note 7)	78	9,900
Impairment of interests in associates (note 9)	—	2,235
Impairment of trade receivables (note 12)	7,340	51,170
Impairment of inventories (note 13)	7,354	49,646
Occupancy costs	5,801	6,046
Operating leases - motor vehicles	548	244
Employee benefit expense (including Directors' emoluments) (note 24)	63,915	70,606
Transportation	1,842	1,534

## 23 Deemed disposal gain from separate listing of MIHL

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

## 24 Employee benefit expense

	Year HK\$'000	Eighteen months ended 31st December, 2004 HK\$'000
Wages and salaries	60,958	65,342
Directors' fees	1,250	1,483
Social security costs	1,318	1,705
Unutilised annual leave	27	(380)
Termination benefits	—	86
Pension costs - defined contribution plan	552	1,665
Long service payment	(190)	705
	<b>63,915</b>	<b>70,606</b>

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

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

Name of Director	Fees HK\$'000	Salary HK\$'000	Contribution to pension scheme from the Company HK\$'000	Total HK\$'000
José Manuel dos Santos	260	4,123	—	4,383
Yim Hong	190	1,652	12	1,854
Kuan Kin Man	190	751	—	941
Monica Maria Nunes	130	524	12	666
Chui Sai Cheong	240	—	—	240
Lo King Chiu Charles	120	—	—	120
Fung Kee Yue Roger	120	—	—	120

# Notes to the Financial Statements

## 24 Employee benefit expense (Continued)

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

The remuneration of every Director for the eighteen months ended 31st December, 2004 was set out below:

Name of Director	Fees HK\$'000	Discretionary bonuses HK\$'000	Salary HK\$'000	Contribution to pension scheme from the Company HK\$'000	Total HK\$'000
José Manuel dos Santos	335	400	6,072	—	6,807
Yim Hong	263	206	2,535	18	3,022
Kuan Kin Man	263	200	1,149	—	1,612
Monica Maria Nunes	200	206	687	18	1,111
Chui Sai Cheong	213	—	—	—	213
Lo King Chiu Charles	180	—	—	—	180
Fung Kee Yue Roger	30	—	—	—	30

No Director waived or agreed to waive any of their emoluments in respect of the Year and the eighteen months ended 31st December, 2004.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Year included two (eighteen months ended 31st December, 2004: three) Directors whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining three (eighteen months ended 31st December, 2004: two) individuals during the Year was as follows:

	Year HK\$'000	Eighteen months ended 31st December, 2004 HK\$'000
Basic salaries and allowances	4,216	1,855
Bonuses	—	871
Pension costs - defined contribution plan	385	18
	<b>4,601</b>	<b>2,744</b>

## 24 Employee benefit expense (Continued)

### (b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals	
	Year	Eighteen months ended 31st December, 2004
Emolument bands		
HK\$1,000,000 - HK\$1,500,000	2	2
HK\$1,500,001 - HK\$2,000,000	1	—

## 25 Finance costs

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

# Notes to the Financial Statements

## 26 Income tax expense

Hong Kong profits tax was provided at the rate of 17.5% (eighteen months ended 31st December, 2004: 17.5%) on the estimated assessable profit for the Year. Taxation on overseas profits was calculated on the estimated assessable profit for the Year at the rates of taxation prevailing in the regions in which the Group operated.

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

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

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

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



## 27 Net foreign exchange losses

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

	<b>Year HK\$'000</b>	Eighteen months ended 31st December, 2004 HK\$'000
Administrative expenses	<b>1,859</b>	199

## 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\$11,718,000 (eighteen months ended 31st December, 2004: HK\$20,776,000).

## 29 Loss per Share

### Basic

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

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

### Diluted

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

# Notes to the Financial Statements

## 30 Dividends

No dividend was paid during the Year.

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

The Directors did not recommend the payment of a dividend for the Year.

Note:

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



### 31 Cash generated from operations

	Year HK\$'000	Eighteen months ended 31st December, 2004 HK\$'000
Loss for the Year	(30,308)	(175,169)
Adjustments for:		
- Amortisation of goodwill (note 7)	—	5,506
- Amortisation of software licence (note 7)	648	1,833
- Depreciation (note 6)	7,030	8,041
- Dividend income (note 21)	(9)	(112)
- Exchange differences	4,459	(4,196)
- Impairment of interests in an associate (note 9)	—	2,235
- Impairment of software licence (note 7)	78	9,900
- Interest income (note 21)	(3,571)	(3,124)
- Loss on sale of property, plant and equipment (see below)	—	390
- Loss on disposal of non-trading securities	—	2,690
- Impairment of trade receivables (note 22)	7,340	51,170
- Gain on disposal of a trading security	—	(311)
- Gain on disposal of available-for-sale financial assets (note 21)	(3,704)	—
- Fair value losses on other financial assets at fair value through profit or loss (note 21)	1,384	—
- Impairment of inventories (note 22)	7,354	49,646
Changes in working capital	(9,299)	(51,501)
- Inventories	21,619	46,126
- Trade and bills receivables and other receivables, deposits and prepayments	(66,033)	(73,297)
- Trade and bills payables	68,487	21,684
- Other payables and accruals	(5,280)	28,197
Cash generated from/(used in) operations	<u>9,494</u>	<u>(28,791)</u>
In the cash flow statement, proceeds from sale of property, plant and equipment comprised:		
Net book amount (note 6)	—	390
Loss on sale of property, plant and equipment	—	(390)
Proceeds from sale of property, plant and equipment	<u>—</u>	<u>—</u>

# Notes to the Financial Statements

## 31 Cash generated from operations (Continued)

### Major non-cash transactions

On 23rd December, 2003, MIL allotted and issued an aggregate of 360 shares of US\$1 each, representing approximately 18% of the issued share capital of MIL issued, as consideration of HK\$11,000,000 for purchase of a software licence.

## 32 Contingencies

The Group 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 Group has given guarantees in the ordinary course of business amounting to approximately HK\$213,136,000 (2004: approximately HK\$300,836,000) to subsidiaries, as disclosed in note 36(j).

The Company executed guarantees amounting to approximately HK\$213,136,000 (2004: HK\$300,836,000) with respect to banking facilities and trade credits made available to subsidiaries. As at 31st December 2005, the borrowings outstanding against the facilities amounted to approximately HK\$74,226,000 (2004: approximately HK\$147,052,000).

## 33 Operating lease commitments - where a 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 during the Year was disclosed in note 22.

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

	2005 HK\$'000	2004 HK\$'000
Not later than one year	4,508	4,204
Later than one year and not later than five years	4,131	5,820
	<u>8,639</u>	<u>10,024</u>

### 34 Operating leases – where the Group was the lessor

The Group had future aggregate minimum lease receipts under non-cancellable operating leases were as follows:

	<b>2005 HK\$'000</b>	2004 HK\$'000
Not later than one year	<b>1,727</b>	2,319
Later than one year and not later than five years	<b>899</b>	2,626
	<b>2,626</b>	4,945

### 35 Business combinations

There were no acquisitions during the Year.

During the eighteen months ended 31st December, 2004, the Group undertook the following acquisitions:

On 22nd September, 2003, the Group acquired 100% of the share capital of PEML, a company which sold communications equipment in Macao. The acquired business contributed revenues of approximately HK\$882,000 and net loss of approximately HK\$953,000 to the Group for the period from 22nd September, 2003 to 31st December, 2004.

If the acquisition had occurred on 1st July, 2003, revenues of the Group would have been approximately HK\$907,000, and net loss of the Group before allocations would have been approximately HK\$2,083,000.

On 1st September, 2004, the Group acquired 100% of the share capital of CAOCL, a company which sold mobile phones in Macao. The acquired business contributed revenues of approximately HK\$29,609,000 and net loss of approximately HK\$1,751,000 to the Group for the period from 1st September, 2004 to 31st December, 2004.

If the acquisition had occurred on 1st July, 2003, revenues of the Group would have been approximately HK\$137,553,000, and net loss of the Group before allocations would have been approximately HK\$1,842,000.

On 9th July, 2004, the Group acquired 60% of the share capital of TCM and its subsidiaries, namely STASA, SGMBH, TMBV, TMPO, Compañía Hispanoholandesa de Audiotex, S.L. and Telefonía Inteligente Española S.L. (both incorporated in Spain with limited liability and an indirectly owned subsidiary of the Company), Mediatel Finland Oy and Voxel Finland Oy (both incorporated in Finland with limited liability and an indirectly owned subsidiary of the Company), a group of multimedia value-added services providers in Europe. The acquired business contributed revenues of approximately HK\$39,850,000 and net loss of approximately HK\$19,246,000 to the Group for the period from 9th July, 2004 to 31st December, 2004.

If the acquisition had occurred on 11th June, 2004 (the date of incorporation of TCM), revenues and net loss of the Group before allocations would have been the same.

# Notes to the Financial Statements

## 35 Business combinations (Continued)

On 22nd September, 2003, the Group acquired 61% of the share capital of PERDL and its subsidiary, ZMSD, a group providing of computer software products, computer network system engineering research and development and related services and maintenance in Mainland China. The acquired business contributed revenue of approximately HK\$2,085,000 and net loss of approximately HK\$1,836,000 to the Group for the period from 22nd September, 2003 to 31st December, 2004.

If the acquisition had occurred on 1st July, 2003, revenues and net loss of the Group before allocations would have been the same.

Details of net assets acquired and goodwill were as follows:

	PEML HK\$'000	CAOCL HK\$'000	TCM HK\$'000	PERDL HK\$'000	Total HK\$'000
Purchase consideration:					
- Cash paid	7,227	5,631	22,996	1,000	36,854
- Direct costs relating to the acquisition	—	69	3,669	—	3,738
- Cash injected as capital	—	—	7	—	7
Total purchase consideration	7,227	5,700	26,672	1,000	40,599
Fair value of net assets/ (liabilities) acquired - shown as below	1,273	(5,479)	53,529	(415)	48,908
Goodwill (note 7)	8,500	221	80,201	585	89,507

The goodwill of PEML, CAOCL, TCM and PERDL was attributable to the significant synergies expected to arise after the acquisition of the subsidiaries by the Group.



### 35 Business combinations (Continued)

The assets and liabilities arising from the acquisitions were as follows:

	Fair value and carrying amount of the acquirees				
	PEML HK\$'000	CAOCL HK\$'000	TCM HK\$'000	PERDL HK\$'000	Total HK\$'000
Cash and cash equivalents	121	978	4,265	284	5,648
Property, plant and equipment (note 6)	300	2,406	2,856	79	5,641
Intangible assets (note 7)	—	—	1,492	—	1,492
Inventories	110	3,681	—	—	3,791
Receivables	234	1,540	31,531	59	33,364
Payables	(2,038)	(3,126)	(71,433)	(7)	(76,604)
Borrowings	—	—	(13,321)	—	(13,321)
Net assets/(liabilities)	(1,273)	5,479	(44,610)	415	(39,989)
Minority interests (40%)	—	—	(8,919)	—	(8,919)
Net assets/(liabilities) acquired	(1,273)	5,479	(53,529)	415	(48,908)
Purchase consideration settled in cash	(7,227)	(5,700)	(26,672)	(1,000)	(40,599)
Cash advance in previous year	7,227	—	—	1,000	8,227
Cash and cash equivalents in subsidiary acquired	121	978	4,265	284	5,648
Cash inflow/(outflow) on acquisition	121	(4,722)	(22,407)	284	(26,724)

# Notes to the Financial Statements

## 36 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:

	Year HK\$'000	Eighteen months ended 31st December, 2004 HK\$'000
Sale of goods	90	26
Purchase of goods	(45)	(212)
Occupancy costs	(767)	(335)

- (b) During the Year, the Group paid occupancy costs of approximately HK\$717,000 to a Director, José Manuel dos Santos (eighteen months ended 31st December, 2004: approximately HK\$566,000).
- (c) During the eighteen months ended 31st December, 2004, the Group acquired 45% equity interest in an associate, STL from a Director, José Manuel dos Santos, at a consideration of MOP45,000 (approximately HK\$44,000).
- (d) Management considered remuneration to all key management of the Group had already been disclosed in note 24 to the accounts.
- (e) During the eighteen months ended 31st December, 2004, the Group had paid software development fees of approximately HK\$480,000 to a company owned by Kuok Cheong Ian, a director of a subsidiary. There were no such transactions after the appointment of Kuok Cheong Ian as a director of the subsidiary since 16th December, 2003.
- (f) During the Year, the Group received management fee of approximately HK\$2,906,000 from a company owned by a minority shareholder of a subsidiary (eighteen months ended 31st December, 2004: approximately HK\$1,478,000).
- (g) During the Year, a subsidiary paid management fee of approximately HK\$570,000 to a company owned by a director of various subsidiaries (eighteen months ended 31st December, 2004: approximately HK\$278,000).
- (h) As at 31st December, 2005, other receivables, deposits and prepayments included loans to related parties of approximately HK\$1,836,000 (2004: HK\$Nil).
- (i) As at 31st December, 2005, short-term borrowings included loan from a related party of approximately HK\$930,000 (2004: HK\$Nil) and other payables and accruals included the corresponding interest expense payable of approximately HK\$61,000 (2004: HK\$Nil).
- (j) As at 31st December, 2005, the Company guaranteed a loan made by a bank to subsidiaries of the Company, in a total amount of approximately HK\$25,032,000 (2004: approximately HK\$132,198,000). The loan was repayable in 2006.

# Five Fiscal Periods Financial Summary

For the Year

Results	Year HK\$'000	Eighteen months ended 31st December, 2004 HK\$'000	Twelve months ended 30th June		
			2003 HK\$'000	2002 HK\$'000	2001 HK\$'000 (restated)
(Loss)/profit attributable to					
- equity holders	(37,488)	(173,625)	10,594	56,992	54,136
- minority interests	(3,060)	(17,277)	(562)	1,763	—
Assets and liabilities					
Total assets	523,695	585,170	491,822	552,275	548,449
Total liabilities	(391,931)	(400,365)	(145,153)	(220,609)	(254,874)
Total equity	131,764	184,805	346,669	331,666	293,575

# Definitions

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

“Associated Corporations”	corporations: — <ol style="list-style-type: none"><li>1 which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or</li><li>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</li></ol>
“Audit Committee”	the audit committee of the Company
“Board”	the board of the Directors
“BVI”	the British Virgin Islands
“Bye-laws”	the existing bye-laws of the Company
“CAOCL”	Communications Appliances Ou Chung Limited, details of which can be referred to note 8 to the financial statements
“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
“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
“CPPCC”	Chinese People’s Political Consultative Conference
“Director(s)”	the director(s) of the Company



“DM”	Deutsche Mark, the lawful currency of Germany before the introduction of €
“ERL”	Eve Resources Limited, a company incorporated in BVI with limited liabilities
“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 Medietel Finland Oy and Voxel Finland Oy)
“Gazetted Newspapers”	those newspapers which are, from time to time, specified in the list of newspapers issued and published in the Gazette for the purposes of section 71A of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) as amended from time to time 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
“Germany”	The Federal Republic of Germany
“GLGTCT”	Guangzhou LG Tops Communication Technologies Co. Ltd., details of which can be referred to note 9 to the financial statements
“Group” or “Vodatel”	the Company and its subsidiaries
“GTVD”	Guangzhou Thinker Vodatel Development Company Limited, details of which can be referred to note 8 to the financial statements
“GVDL”	廣州市愛達利發展有限公司, details of which can be referred to note 8 to the financial statements
“GZIC”	廣州市圖文資訊有限公司, details of which can be referred to note 8 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

## Definitions

“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, MegalInfo (Hong Kong) Limited and Tidestone Science and Technology (Hong Kong) Company Limited)
“IVR”	interactive voice response
“LRL”	Lois Resources Limited, a company incorporated in BVI with limited liabilities
“Macao”	the Macao Special Administrative Region of the PRC (not applicable to the Macao Chamber of Commerce, the Association of Economic Science of Macao, the Macao Junior Chamber of Commerce, 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
“Member”	holder of Shares
“MIHL”	MegalInfo Holdings Limited, where Shares of MIHL are listed on GEM and details of which can be referred to note 8 to the financial statements
“MOP”	Patacas, the lawful currency of Macao
“MTNHL”	Mobile Telecom Network (Holdings) Limited, details of which can be referred to note 10 to the financial statements, and whose shares are listed on GEM
“Nomination Committee”	the nomination committee of the Company
“NUPT”	Nanjing University of Posts and Telecommunications





“PEML”	Power Express (Macau) Limited, details of which can be referred to note 8 to the financial statements
“PERDL”	PE Research and Development Limited, details of which can be referred to note 8 to the financial statements
“PRC”	The People’s Republic of China
“Remuneration Committee”	the remuneration committee of the Company
“RMB”	Renminbi, the lawful currency of Mainland China
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) as amended from time to time
“SGMBH”	SuperCom GmbH, details of which can be referred to note 8 to the financial statements
“Shares of MIHL”	shares of HK\$0.01 each in the capital of MIHL
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“SMS”	short message services
“Spain”	The Kingdom of Spain
“SSAP”	Statement of Standard Accounting Practice
“STASA”	Servicios Telefónicos de Audiotex, Societed Anónima, details of which can be referred to note 8 to the financial statements
“STL”	Source Tech Limited, details of which can be referred to note 9 to the financial statements
“Substantial Shareholder”	in relation to a company 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 note 8 to the financial statements
“The Netherlands”	The Kingdom of the Netherlands
“TSTSH”	泰思通軟件(上海)有限公司, details of which can be referred to note 8 to the financial statements

## Definitions

"TMBV"	Teleconcept Multimedia B.V., details of which can be referred to note 8 to the financial statements
"TMPO"	Tel-More Productions Oy, details of which can be referred to note 8 to the financial statements
"UM"	University of Macau
"US\$"	United States Dollars, the lawful currency of USA
"USA"	The United States of America
"VHL"	Vodatel Holdings Limited, details of which can be referred to note 8 to the financial statements
"Vietnam"	The Socialist Republic of Vietnam (not applicable to Vodatel Integrated Solutions (Vietnam) Limited)
"VTGL"	廣州愛達利科技有限公司, details of which can be referred to note 8 to the financial statements
"Year"	year ended 31st December, 2005
"Zetronic"	Zetronic Communications (Macau) Limited, a company in Macao with limited liability
"ZMSD"	珠海萬佳達軟件開發有限公司, details of which can be referred to note 8 to the financial statements
"€"	Euro, the lawful currency of the European Union

