VODATEL

(Stock code: 8033)

2007
Annual Report

Characteristics of GEM

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

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

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

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Corporate Information

Directors

Executive Directors

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

Independent Non-executive Directors

Lo King Chiu Charles
Fung Kee Yue Roger

Authorised Representatives

Yim Hong
Monica Maria Nunes

Company Secretary

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

Qualified Accountant

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

Compliance Officer

Monica Maria Nunes

Audit Committee

Lo King Chiu Charles
Fung Kee Yue Roger

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Registered Office

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2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business

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Taipa
Macao
Tel: (853) 28721182, 28718033
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Place of Business in Hong Kong

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2-8 Watson Road
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Website

http://www.vodatelsys.com

Bankers

Banco Comercial de Macau, S.A.
Banco Nacional Ultramarino, S.A.

Share Registrars

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Company Profile

Headquartered in Macao and listed on GEM, the Group carries the vision to deliver high quality communications infrastructural solutions to customers, allowing them to manage their business and reach out for information, anywhere and anytime. The Group principally engages in the provision of network and system infrastructure and CNMS.

The Group provides an integrated span of services in network and system infrastructure, ranging from network and system planning, design, provision of equipment and software, installation and implementation to maintenance and technical support for telecommunications service providers in PRC, such as China Telecom, China Netcom, China Unicom and China Mobile, and enterprise customers in selected vertical markets, such as cable TV operators, electricity bureaus, governmental authorities and universities. In Macao, the Group is also a leading provider of solutions in structured cabling, surveillance, trunking radio and networking for gaming and hotel operators.

The Group is also engaged in the provision of self-developed CNMS for telecommunications service providers in PRC, which allows the various operators to effectively and efficiently manage the performance of and traffic over the networks.

Chairman's Statement

Dear Members,

2007 marked the 15th anniversary of the Group. Five years ago, we experienced our best years, achieving history high turnover and reporting seven consecutive years of unbroken profit-making records. Since then, we experienced our worst years, as we reported our first drop in revenue, our first drop in profit and experienced a loss-making year for the first time.

The past five years have been very difficult years for the Group as we experienced changing business landscape and found ourselves competing in new territories. Furthermore, some of the invested assets that we made in an ambitious plan to bring the Group into the international arena did not produce positive benefits and we incurred loss while making exit on these invested assets.

Nevertheless, 2007 is a turnaround year. After reporting three consecutive loss-making years, I am pleased to report to you that the Group has achieved operating profit of HK$3,864,000 and, attributable to write back of tax overprovided in previous years, we reported net profit of HK$18,096,000 from continuing operations.

Despite unsatisfactory operating performance during the past three years, the financing stance of the Group remained solid, with no external borrowings and equity base standing at HK$111,454,000 as at 31st December, 2007. Total cash (including pledged deposits) amounted to HK$72,904,000.

Refined Marketing Positioning

With a booming economy in Macao, the Group now yielded more than 60% of its revenue from the domestic market. Capitalising on our foothold as a major local player, Vodatel now stands as a provider of solutions in networking, data centre, structured cabling, surveillance and trunking radio. In the area of trunking radio, the Group has established a leading position in Macao. With a project awarded by one of the gaming operators to install trunking radio system at their establishment in the Cotai Strip, today, the Group is the supplier of trunking radio systems for all six gaming operators in Macao.

In Macao, in addition to providing solutions to different gaming and hotel operators, Vodatel is also one of the major suppliers to the Government of Macao in trunking radio systems, servers and workstations and networking systems. During 2007, the wholly-owned subsidiary of the Company, MDL, is selected by the Macao 2nd Asian Indoor Games Organising Committee to provide support services for this gaming function hosted in Macao during October, 2007.

In Mainland China, the Group has transformed itself to focus principally on the provision of data networking to telecommunications service providers in selected provinces and in the provision of the higher margin networking services provisioning and CNMS, the latter activity of which is conducted via TSTSH. 2007 is a breakthrough year for TSTSH as it successfully worked out a new business model, allowing TSTSH not only able to generate revenue from the installation of its CNMS at the premise of the telecommunications service provider, but also

from its customers should they deploy the CNMS of TSTSH to manage their internal network, translating to a new revenue stream for TSTSH and expanding the application of its CNMS from telecommunications service providers to large enterprises.

Looking Ahead

While we should not spend too much time peering in the rear-view mirror, however, the past experiences certainly provide valuable lessons that we should learn and remember. Going forward, Vodatel will continue to face with challenges to ensure that we are in the right business direction and that the building blocks of the Group are back on solid ground. Only with solid bedrocks — right products, strong knowledge and foothold in the markets that we operate and human talents — will the Group be able to continue to pursue the vision of sustainable growth and development and to bring value to the Members.

Finally, I would like to thank our suppliers and customers for their continued support and for believing that Vodatel is a trusted partner that they can work with. I would also like to extend my appreciation to the management team and all employees who are responsible and dedicated to make the Group a success.

José Manuel dos Santos
Chairman

Macao, 25th March, 2008

Management Discussion and Analysis

REVIEW OF BUSINESS ACTIVITIES

Macao – Market Prospects Remained Strong

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

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

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

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

Mainland China – Working With A New Market Equation

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

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

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

International Investments

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

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

Management Discussion and Analysis

REVIEW OF OPERATING RESULTS

Turnover and Profitability

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

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

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

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

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

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

Capital Structure and Financial Resources

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

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

Employees' Information

As at 31st December, 2007, the Group had 276 employees, of which 120, 12 and 144 employees were based in Macao, Hong Kong and Mainland China respectively.

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

The Company adopted the Scheme whereby certain employees of the Group may be granted Options. Details of the Scheme are set out under the section "Options" in the report of the Directors.

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

Capital Commitments and Significant Investments

As at 31st December, 2007, the Group did not have any significant capital commitments and significant investments.

Charges on Group Assets

As at 31st December, 2007, time deposit of approximately HK$8,475,000 was charged to obtain banking facilities for the issue of performance bonds against certain projects. Save as disclosed, the Group did not have any charges on assets of the Group.

Details of Material Acquisitions and Disposals

On 13th September, 2007, TCM was deregistered.

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

Details of Future Plans for Material Investment or Capital Assets

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

Foreign Exchange Exposure

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

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

José Manuel DOS SANTOS, aged 60, was first appointed as an executive Director on 13th December, 1999. He is the founder of the Group and Chairman of the Company. He has experience of over thirty years in the telecommunications industry in the Asia Pacific region. He served in a senior position at Direcção dos Serviços de Correcios e Telecomunicações, the telecommunications authority of the Government of Macao, prior to the founding of Zetronic and subsequently the Group.

YIM Hong, aged 50, was first appointed as an executive Director on 14th December, 1999. He is the Managing Director of the Company in charge of overall operations. He graduated from QM, UK with a Bachelor of Science degree. With more than twenty years of experience in the IT industry, he joined the Group in 1998. Prior to joining the Group, he was the area business director at Newbridge Networks (Asia) Limited and the country manager at 3Com Asia Limited.

KUAN Kin Man, aged 42, was first appointed as an executive Director on 14th December, 1999. He is the general manager of the Group in charge of sales and marketing. In 1985, he joined Zetronic as an engineer and was transferred into marketing later. He joined Vodatel Systems (the assets and liabilities of which were assigned to VHL on 1st July, 1998) on 8th July, 1992 to assume the role of sales manager and was promoted to general manager in 1994.

Monica Maria NUNES, aged 39, 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

LO King Chiu Charles, aged 64, 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, Chinese People's Political Consultative Conference and the Secretary General of Comité Olympid de Macau (Macao Olympic Committee). 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 55, was first appointed as an independent non-executive Director on 30th September, 2004. He is the managing director of Mitel Networks Asia Pacific Limited, a wholly-owned subsidiary of Mitel Networks Corporation in Canada. He graduated from the University of Toronto, Canada with a Bachelor of Applied Science degree in industrial engineering. He was a member of Professional Engineers Ontario, Canada. He has more than twenty years of experience in the telecommunications and electronics industry.

SENIOR MANAGEMENT (By alphabetical order)

CHAN Chi Pio, aged 38, is the technical support manager of the Group. He joined the Group in 1992 after having graduated from Huaqiao University, PRC with a Bachelor of Science degree in the same year.

CHAN Ka Man Alan, aged 38, is currently the senior project manager of the Group, responsible for managing system integration projects for the government and gaming operators in Macao. Prior to joining the Group in 2003, he worked for several system integrators in Hong Kong for over ten years, delivering a range of information and security systems to both public and private sector. He graduated from University of Northumbria, UK with a degree of Bachelor of Engineering, followed by an approved Honours programme in Communication and Electronic Engineering, and holds double degrees of Master of Commerce (Electronic Commerce) and Master of Technology Management in the field of Electronic Business from the University of Queensland, Australia. He is also a Project Management Professional and a PRINCE2 Registered Practitioner.

CHEONG Kuan Pat, aged 43, is the general manager of MDL. He graduated from AIOUM, PRC with a Master of Business Administration degree. He has been working in the IT industry in Macao for over twenty years. He joined MDL in 1993 as the chief of product sales and marketing department.

FOO Chun Ngai Redford, aged 34, is the company secretary and qualified accountant of the Company. He joined the Company in September, 2003. He is responsible for company secretarial matters and overall financial and accounting management of the Group. He graduated from the University of Hong Kong, PRC with a degree of Bachelor of Business Administration in Accounting and Finance. He is a fellow of the Association of Chartered Certified Accountants and HKICPA. He is also an associate of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Before joining the Company, he worked for another company listed on GEM as the company secretary and qualified accountant and for an international renowned accounting firm.

HO Wai Sam Paul, aged 45, is the director of technical services of the Group. He graduated from AIOUM, PRC with a Master of Business Administration degree. He had worked in Companhia de Telecomunicações de Macau S.A.R.L. for eighteen years and was head of transport network covering the international and national engineering such as optical fibre, synchronous and plesiochronous digital hierarchy transmission, submarine cable, microwave and satellite earth station. He joined the Group in June, 2000.

Manouchehr MEHRABI, aged 49, is the senior network consultant of the Group. He obtained his Bachelor of Computer Science degree from Concordia University, Canada in Montreal and his Master of Science degree in Telecommunications from QM, UK. Over the years, he has filled a number of IT positions, including programmer, database administrator, field engineer, system manager, and network consultant. He joined the Group in June, 2000.

SENIOR MANAGEMENT (By alphabetical order) (Continued)

MOK Chi Va, aged 42, is the sales director of the Group for the market in Macao. He has obtained a Diploma in Business Administration jointly organised by UM, PRC and Macau Management Association and a Master of Business Administration - International Business degree from West Coast Institute of Management and Technology, Australia. He first joined the Group on 3rd July, 2000 as the business development manager principally in charge of the business of MIHL and was appointed as an executive director of MIHL on 29th January, 2003. He was transferred back to the Group on 1st July, 2007. Prior to joining the Group, he had worked for Charter Kingdom Limited as the operation manager for about one year, and Tung Tat E&M Engineering Co. Limited as the project manager for four years.

NG Ka Leung, aged 38, 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 39, 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.

WANG Qing, aged 37, is the regional business manager of the Group. He graduated from Nanjing University of Posts and Telecommunications, PRC with a Bachelor of Science degree in 1992. He joined the Group in 1994. He was an engineer at a telecommunications equipment firm before joining the Group.

WONG Chi Ping, aged 58, is the business development director of the Group. He has over twenty years of experience in the audio and electronic industries in PRC. Prior to joining the Group in 1999, he worked for Zetronic for over ten years responsible for the operation and marketing of voice telecommunications business.

WONG How Yee Roger, aged 48, is the business development director of the Group for the market in Macao. He graduated from the University of Technology, Sydney, Australia with a Bachelor of Applied Science degree and a Master of Engineering degree in Telecommunications Engineering. He has over twenty years of experience in sales and marketing. Prior to joining the Group in December, 2004, he was the director of business operation of Alcatel Networks (Asia) Limited.

WONG Wai Kan, aged 43, is the senior regional business director of the Group. He graduated from 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 44, 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 different telecommunications service providers in PRC.

Corporate Governance Report

1. Corporate governance practices

The Company has complied with the code provisions of the Code of Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, except that Fung Kee Roger, an independent non-executive Director, did not attend the Board meeting in which the Directors' service contracts were approved.

A.1.8. Fung Kee Yue Roger was away on a business trip on that day.

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 (resigned on 15th February, 2008)
	Lo King Chiu Charles
	Fung Kee Yue Roger

Five meetings were held during the Year.

The attendance record of each Director was as follows:

José Manuel dos Santos	3/5
Yim Hong	4/5
Kuan Kin Man	4/5
Monica Maria Nunes	5/5
Chui Sai Cheong	5/5
Lo King Chiu Charles	5/5
Fung Kee Yue Roger	4/5

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 documentations to be put forward to Members at a general meeting.

(g) Approval of all circulars and listing particulars.

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

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

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

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

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

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

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

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

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

(q) Major capital projects.

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

3. Board (Continued)

(s) 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.

(t) Major investments.

(u) Risk management strategy.

(v) Treasury policies, including foreign currency exposure.

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

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

(y) Major changes to employee share schemes and the allocation of executive Options.

(z) Formulation of policy regarding charitable donations.

(aa) Political donations.

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

(ac) Prosecution, defence or settlement of litigation.

(ad) Internal control arrangements.

(ae) Directors' and officers' liability insurance.

Matters not mentioned above will be delegated to the management.

Throughout the Year, the Company has complied with rules 5.05(1) and (2).

Following the resignation of Chui Sai Cheong on 15th February, 2008, the Company has only two independent non-executive Directors which fall below the minimum number of three independent non-executive directors as required by the GEM Listing Rules and none of the remaining independent non-executive Directors have appropriate professional qualifications in the area of accounting or related financial management expertise, as required under the GEM Listing Rules respectively. The Company will search for a suitable candidate to fill the vacancy as soon as practicable.

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

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

4. Chairman and chief executive officer

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

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

5. Non-executive Directors

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

6. Remuneration of Directors

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

The members of the Remuneration Committee were:

José Manuel dos Santos (Chairman)
Chui Sai Cheong (resigned on 15th February, 2008)
Lo King Chiu Charles
Fung Kee Yue Roger

One meeting was held during the Year.

The attendance record of each Director was as follows:

José Manuel dos Santos	1/1
Chui Sai Cheong	1/1
Lo King Chiu Charles	1/1
Fung Kee Yue Roger	0/1

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 August, 2008.

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 (resigned on 15th February, 2008)
Lo King Chiu Charles
Fung Kee Yue Roger

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

8. Auditors' remuneration

Remuneration of audit is HK$1,950,000 for the Year. Other fees paid to entities, which would reasonably be considered as part of the Auditors nationally or internationally, included approximately HK$63,000 to PricewaterhouseCoopers Limited for advice for individual income tax in Mainland China. The Group also paid approximately US$5,000 (approximately HK$43,000) to PricewaterhouseCoopers Legal Lawyers in the Socialist Republic of Vietnam for the assistance of establishment of a subsidiary in the past.

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) (resigned on 15th February, 2008)
Lo King Chiu Charles
Fung Kee Yue Roger

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

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

9. Audit Committee (Continued)

During the Year, the Audit Committee reviewed the financial reports for the Year, for the six months ended 30th June, 2007 and for the quarters ended 31st March, 2007 and 30th September, 2007. The Audit Committee also reviewed and discussed the report of the Auditors to the Audit Committee for the Year and reviewed the Auditors' statutory audit plan for the Year.

Throughout the Year, the Company established the Audit Committee in compliance with rule 5.28.

Following the resignation of Chui Sai Cheong on 15th February, 2008, the Company has only two members in the Audit Committee which fall below the minimum number of three members in the Audit Committee as required by the GEM Listing Rules and none of the remaining members in the Audit Committee have appropriate professional qualifications in the area of accounting or related financial management expertise, as required under the GEM Listing Rules respectively. The Company will search for a suitable candidate to fill the vacancy as soon as practicable.

10. Other specific disclosures

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

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

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

On behalf of the Board

José Manuel dos Santos
Chairman

Macao, 25th March, 2008

Report of the Directors

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

Principal activity and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 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 20 to the financial statements.

Property, plant and equipment

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

Share capital

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

Distributable reserves

Distributable reserves of the Company as at 31st December, 2007, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$126,929,000 (2006: HK$6,554,000).

Pre-emptive rights

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

Financial summary of five fiscal periods

A summary of the results and of the assets and liabilities of the Group for the financial year ended 30th June, 2003, the eighteen months ended 31st December, 2004, the two financial years ended up to 31st December, 2006 and the Year is set out on page 98.

Purchase, sale or redemption of securities

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

Options

Options were granted to Directors, employees and consultants under the Scheme. The Scheme was to provide incentives and rewards to Participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group.

The total number of Shares available for issue under the Scheme as at 31st December, 2007 was 61,381,900, representing 10% of the issued share capital of the Company as at 31st December, 2007.

The total number of Shares issued and to be issued upon exercise of the Option granted and to be granted to each Participant, including exercised, cancelled and outstanding Options, in any twelve-month period up to the date of grant must not exceed 1% of the Shares in issue at the date of grant.

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.

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

The Subscription Price shall be no less than the highest of (a) the closing price of the Shares as stated in the daily quotation sheets issued by the Exchange on the Offer Date, which must be a business day; (b) the average closing price of the Shares as stated in the daily quotation sheets issued by the Exchange for the five business days immediately preceding the Offer Date; and (c) the nominal value of a Share on the date of grant of the Option.

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

Options (Continued)

Details of the Options outstanding as at 31st December, 2007 which were granted under the Scheme were as follows:

	Number of options								
	held as at 1st January, 2007	granted during the Year	cancelled during the Year	lapsed during the Year	held as at 31st December, 2007	Subscription Price HK$	Grant date	Exercisable from	Exercisable until
José Manuel dos Santos	—	800,000	—	—	800,000	0.32(Note)	11th July, 2007	12th July, 2007	11th July, 2010
Yim Hong	—	800,000	—	—	800,000	0.32(Note)	11th July, 2007	12th July, 2007	11th July, 2010
Kuan Kin Man	—	800,000	—	—	800,000	0.32(Note)	11th July, 2007	12th July, 2007	11th July, 2010
Monica Maria Nunes	—	800,000	—	—	800,000	0.32(Note)	11th July, 2007	12th July, 2007	11th July, 2010
Chui Sai Cheong	—	500,000	—	—	500,000	0.32(Note)	11th July, 2007	12th July, 2007	11th July, 2010
Lo King Chiu Charles	—	500,000	—	—	500,000	0.32((Note)	11th July, 2007	12th July, 2007	11th July, 2010
Fung Kee Yue Roger	—	500,000	—	—	500,000	0.32(Note)	11th July, 2007	12th July, 2007	11th July, 2010
Continuous contract employees	—	18,490,000	(70,000)	(36,000)	18,384,000	0.32(Note)	11th July, 2007	12th July, 2007	11th July, 2010
Consultants	—	190,000	—	—	190,000	0.32(Note)	11th July, 2007	12th July, 2007	11th July, 2010
	—	23,380,000	(70,000)	(36,000)	23,274,000				

Note:

As at the date before the Options were granted, 11th July, 2007, the market value per Share was HK$0.32. The value of the Options granted to the respective parties was as follows:

	HK$'000
José Manuel dos Santos	79
Yim Hong	79
Kuan Kin Man	79
Monica Maria Nunes	79
Chui Sai Cheong	49
Lo King Chiu Charles	49
Fung Kee Yue Roger	49
Continuous contract employees	1,826
	2,289

Options (Continued)

The value of the Options granted during the Year was HK$2,289,000, based on the binomial model. The significant inputs into the model were Share price of HK$0.32 at the grant date, Subscription Price shown above, volatility of the underlying Shares of 94.06%, expected dividend paid out rate of 0% and annual risk-free interest rate of 4.38%. The volatility measured is based on the three-year historical volatility of the price return of the Shares. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Directors

The Directors during the Year were:

José Manuel dos Santos
Yim Hong
Kuan Kin Man
Monica Maria Nunes
[1] Chui Sai Cheong (resigned on 15th February, 2008)
[1] Lo King Chiu Charles
[1] Fung Kee Yue Roger

[1] Independent non-executive Directors

In accordance with Article 87 of the Bye-laws, Monica Maria Nunes retires by rotation at the forthcoming annual general meeting and, being eligible, offers herself for re-election.

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

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 were set out in Note 35 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, 2007 or at any time during the Year.

Biographical details of Directors and senior management

Brief biographical details of Directors and senior management are set out on pages 11 to 13.

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

As at 31st December, 2007, 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 taken 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 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

Aggregate long positions in the Shares

Name of Director	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of Options held)	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Corporate interest/founder of a discretionary trust (Note 1)	293,388,000	—	47.80%
	Personal (Note 2)	—	800,000	0.13%
Yim Hong	Personal (Note 3)	7,357,500	800,000	1.33%
Kuan Kin Man	Personal (Note 4)	22,112,500	800,000	3.73%
Monica Maria Nunes	Personal (Note 5)	2,452,500	800,000	0.53%
Chui Sai Cheong	Personal (Note 6)	—	500,000	0.08%
Lo King Chiu Chalres	Personal (Note 7)	—	500,000	0.08%
Fung Kee Yue Roger	Personal (Note 8)	210,000	500,000	0.12%

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

Aggregate long positions in the Shares (Continued)

Notes:

1. As at 31st December, 2007, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL, a company wholly-owned by José Manuel dos Santos as trustee of the existing trust whereby the family members of José Manuel dos Santos are the discretionary objects and which assets included a controlling stake of 47.80% of the issued share capital of the Company.

2. The personal interest of José Manuel dos Santos comprised 800,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by José Manuel dos Santos as beneficial owner.

3. The personal interest of Yim Hong comprised 7,357,500 Shares and 800,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Yim Hong as beneficial owner.

4. The personal interest of Kuan Kin Man comprised 22,112,500 Shares and 800,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.

5. The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 800,000 underlying Shares in respect of Options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.

6. The personal interest of Chui Sai Cheong comprised 500,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Chiu Sai Cheong as beneficial owner.

7. The personal interest of Lo King Chiu Charles comprised 500,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Lo King Chiu Charles as beneficial owner.

8. The personal interest of Fung Kee Yue Roger comprised 210,000 Shares and 500,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.

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

The register of Substantial Shareholders required to be kept under section 336 of Part XV of the SFO showed that as at 31st December, 2007, the Company was notified of the following Substantial Shareholders' interests being 5% or more of the issued share capital of the Company. These interests were in addition to those disclosed above in respect of the Directors and Chief Executive:

Substantial Shareholders' interests and short positions in the Shares and underlying Shares (Continued)

Aggregate long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
ERL	Corporate interest (Note 1)	293,388,000	47.80%
LRL	Corporate interest (Note 1)	293,388,000	47.80%
Lei Hon Kin (Note 2)	Family interest	294,188,000	47.93%

Notes:

1 As at 31st December, 2007, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL.

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

Management contracts

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

Major suppliers and customers

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

Purchases	
— the largest supplier	11.36%
— five largest suppliers combined	38.04%
Sales	
— the largest customer	8.33%
— five largest customers combined	31.21%

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 and subsequent events

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

On 19th February, 2008, a sale and purchase deed was entered into between CAOCL and José Manuel dos Santos relating to the sale of the Property for HK$4,800,000, which was satisfied by José Manuel dos Santos in cash. José Manuel dos Santos is a Director and therefore a Connected Person and the sale of the Property constituted a connected transaction under the GEM Listing Rules. The Group was of the view that it was an appropriate time to sell the Property.

Competing interests

As at 31st December, 2007, none of the Directors, or any person who was (or group of persons who together were) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and which was (or were) able, as a practical matter, to direct or influence the management of the Company or any of their respective Associates had any interest in a business, which competed or might compete with the business of the Group.

Auditors

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

On behalf of the Board

José Manuel dos Santos
Chairman

Macao, 25th March, 2008

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF VODATEL NETWORKS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Vodatel Networks Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 30 to 97, which comprise the consolidated and Company balance sheets as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25th March 2008

Consolidated Balance Sheet

	Note	2007 HK$'000	2006 HK$'000
		As at 31st December,	
ASSETS			
Non-current assets			
Freehold land	6	**—**	2,020
Property, plant and equipment	7	**1,358**	3,056
Investment in an associate	9	**572**	445
Available-for-sale financial assets	10,12	**25,967**	15,502
		27,897	21,023
Current assets			
Inventories	14	**25,062**	16,145
Income tax prepaid		**1,034**	936
Trade and bills receivables	10,15	**126,822**	171,961
Other receivables, deposits and prepayments	10,15	**19,354**	26,228
Loaned asset	10,13	**—**	38,748
Pledged bank deposits	10,16	**8,475**	—
Cash and cash equivalents	10,16	**64,429**	107,928
		245,176	361,946
Non-current assets held for sale	36(a)	**5,356**	22,856
		250,532	384,802
Current liabilities			
Trade and bills payables	17	**89,839**	165,151
Other payables and accruals	17	**42,963**	56,194
Current income tax liabilities		**32,958**	45,043
Borrowings	10,18	**—**	35,527
		165,760	301,915
Liabilities directly associated with non-current assets classified as held for sale	36(b)	**1,215**	64,390
		166,975	366,305
Net current assets		**83,557**	18,497
Total assets less current liabilities		**111,454**	39,520

	Note	2007 HK$'000	2006 HK$'000
		As at 31st December,	
Financed by:			
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	19	**61,382**	159,058
Other reserves	20(a)	**136,718**	24,348
Accumulated losses		**(93,377)**	(149,442)
		104,723	33,964
Minority interest in equity		**6,731**	5,556
Total equity		**111,454**	39,520

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

The notes on pages 37 to 97 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	2007 HK$'000	2006 HK$'000
		As at 31st December,	
ASSETS			
Non-current assets			
Investments in subsidiaries	8(a)	**73,918**	42,586
Current assets			
Amounts due from subsidiaries	8(b),10	**126,364**	129,961
Other receivables, deposits and prepayments	15	**126**	271
Cash and cash equivalents	10,16	**214**	336
		126,704	130,568
Current liabilities			
Amounts due to subsidiaries	8(b),10	**5,955**	3,182
Other payables and accruals	17	**3,365**	3,658
		9,320	6,840
Net current assets		**117,384**	123,728
Total assets less current liabilities		**191,302**	166,314
Financed by:			
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	19	**61,382**	159,058
Other reserves	20(b)	**174,385**	74,420
Accumulated losses	20(b)	**(44,465)**	(67,164)
Total equity		**191,302**	166,314

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

The notes on pages 37 to 97 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	2007 HK$'000	2006 HK$'000 (restated)
		Year ended 31st December,	
Continuing operations			
Revenue	5	**328,061**	379,751
Cost of sales	22	**(258,592)**	(324,371)
Gross profit		**69,469**	55,380
Selling and marketing costs	22	**(6,843)**	(7,594)
Administrative expenses	22	**(61,933)**	(68,669)
Other gains/(losses) - net	23	**3,171**	(440)
Operating profit/(loss)		**3,864**	(21,323)
Impairment of goodwill		**—**	(837)
Finance income	25	**4,497**	2,679
Finance costs	25	**(9)**	(1,217)
Finance income - net	25	**4,488**	1,462
Share of profit/(loss) of an associate	9	**127**	(257)
Profit/(loss) before income tax		**8,479**	(20,955)
Income tax credit	26	**9,617**	8,322
Profit/(loss) for the Year from continuing operations		**18,096**	(12,633)
Discontinued operations			
Profit/(loss) for the Year from discontinued operations	36(c)	**39,210**	(73,025)
Profit/(loss) for the Year		**57,306**	(85,658)
Attributable to:			
Equity holders of the Company		**56,065**	(84,094)
Minority interest		**1,241**	(1,564)
		57,306	(85,658)

The notes on pages 37 to 97 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	2007	2006 (restated)
		Year ended 31st December,	
Earnings/(loss) per Share for profit/(loss) from continuing operations attributable to the equity holders of the Company during the Year (expressed in HK cents per Share)			
- basic	29(a)	**2.74**	(1.80)
- diluted	29(b)	**Not applicable**	Not applicable
Earnings/(loss) per Share for profit/(loss) from discontinued operations attributable to the equity holders of the Company during the Year (expressed in HK cents per Share)			
- basic	29(a)	**6.39**	(11.90)
- diluted	29(b)	**Not applicable**	Not applicable
Earnings/(loss) per Share for profit/(loss) attributable to the equity holders of the Company during the Year (expressed in HK cents per Share)			
- basic	29(a)	**9.13**	(13.70)
- diluted	29(b)	**Not applicable**	Not applicable
Dividends	30	**—**	—

The notes on pages 37 to 97 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Attributable to equity holders of the Company					
	Note	Share capital HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interest HK$'000	Total equity HK$'000
Balance as at 1st January, 2006		159,058	29,022	(65,348)	122,732	9,032	131,764
Fair value loss for available-for-sale financial assets	20(a)	—	(4,010)	—	(4,010)	—	(4,010)
Currency translation differences	20(a)	—	(664)	—	(664)	—	(664)
Net expense recognised directly in equity		—	(4,674)	—	(4,674)	—	(4,674)
Loss for the Year		—	—	(84,094)	(84,094)	(1,564)	(85,658)
Total recognised income and expense for the year ended 31st December, 2006		—	(4,674)	(84,094)	(88,768)	(1,564)	(90,332)
Disposal of MIHL		—	—	—	—	(1,430)	(1,430)
Minority interest arising on the acquisition of interests in GTVL		—	—	—	—	(482)	(482)
Balance as at 31st December, 2006		159,058	24,348	(149,442)	33,964	5,556	39,520
Balance as at 1st January, 2007		159,058	24,348	(149,442)	33,964	5,556	39,520
Fair value gain for available-for-sale financial assets	20(a)	—	10,640	—	10,640	—	10,640
Reserves transferred to income statement upon disposal of loaned asset	20(a)	—	(22)	—	(22)	—	(22)
Reserves transferred to income statement upon deregistration of TCM	20(a)	—	1,671	—	1,671	—	1,671
Currency translation differences	20(a)	—	116	—	116	—	116
Net income recognised directly in equity		—	12,405	—	12,405	—	12,405
Profit for the Year		—	—	56,065	56,065	1,241	57,306
Total recognised income and expense for the Year		—	12,405	56,065	68,470	1,241	69,711
Reduction of share premium credited to contributed surplus	20(a)	(97,676)	97,676	—	—	—	—
Share-based compensation	20(a)	—	2,289	—	2,289	—	2,289
Deregistration of TCM		—	—	—	—	(66)	(66)
Balance as at 31st December, 2007		61,382	136,718	(93,377)	104,723	6,731	111,454

The notes on pages 37 to 97 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31st December, 2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	31	**(45,060)**	39,678
Interest paid		**(9)**	(2,373)
Income tax refund		**—**	462
Income tax paid		**(2,007)**	(2,329)
Net cash (used in)/generated from operating activities		**(47,076)**	35,438
Cash flows from investing activities			
Acquisition of additional interests in a subsidiary		**—**	(499)
Disposal of a subsidiary, net of cash disposed		**—**	2,287
Purchase of property, plant and equipment	7	**(353)**	(1,382)
Proceeds from sale of property, plant and equipment		**1,250**	1,842
Purchase of intangible assets		**—**	(185)
Proceeds from sale of an associate		**—**	499
Cash received upon maturity of convertible bond		**—**	800
Interest received		**4,497**	2,714
Dividend received		**2,735**	—
Net cash generated from investing activities		**8,129**	6,076
Cash flows from financing activities			
Bank deposits pledged		**(8,475)**	—
Proceeds from settlement of loaned asset		**38,748**	761
Repayments of borrowings		**(35,527)**	(33,173)
Net cash used in financing activities		**(5,254)**	(32,412)
Net (decrease)/increase in cash and bank overdrafts		**(44,201)**	9,102
Cash and bank overdrafts at beginning of the Year		**108,059**	102,652
Exchange losses/(gains) on cash and bank overdrafts		**1,387**	(3,695)
Cash and bank overdrafts at end of the Year		**65,245**	108,059
Analysis of balances of cash and bank overdrafts			
Cash and bank overdrafts	16	**64,429**	107,411
Cash and bank balances classified as non-current assets held for sale		**816**	648
		65,245	108,059

The notes on pages 37 to 97 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

The Group carries the vision to deliver high quality communications infrastructural solutions to customers, allowing them to manage their business and reach out for information, anywhere and anytime. The Group principally engages in the provision of network and system infrastructure and CNMS.

The Group provides an integrated span of services in network and system infrastructure, ranging from network and system planning, design, provision of equipment and software, installation and implementation to maintenance and technical support for telecommunications service providers in PRC, such as China Telecom, China Netcom, China Unicom and China Mobile, and enterprise customers in selected vertical markets, such as cable TV operators, electricity bureaus, governmental authorities and universities. In Macao, the Group is also a leading provider of solutions in structured cabling, surveillance, trunking radio and networking for gaming and hotel operators.

The Group is also engaged in the provision of self-developed CNMS for telecommunications service providers in PRC, which allows the various operators to effectively and efficiently manage the performance of and traffic over the networks.

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

The Company is listed on GEM.

These consolidated financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated. These consolidated financial statements are approved for issue by the Board on 25th March, 2008.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

The preparation of financial statements in conformity with HKFRS required the use of certain critical accounting estimates. It also required management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates were significant to the consolidated financial statements, were disclosed in Note 4.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

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

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

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

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

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

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

- HK(IFRIC) – Int 7, "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies"; and
- HK(IFRIC) – Int 9, "Reassessment of Embedded Derivatives".

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

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

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

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

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

- HKFRS 8, "Operating Segments" (effective from 1st January, 2009). HKFRS 8 would replace HKAS 14 and would align segment reporting with the requirements of the USA standard Statement of Financial Accounting Standard Number 131, "Disclosures about Segments of an Enterprise and Related Information". The new standard would require a "management approach", under which segment information would be presented on the same basis as that used for internal reporting purposes. The Group would apply HKFRS 8 from 1st January, 2009. The expected impact is still being assessed in details by management, but it would appear likely that the number of reportable segments, as well as the manner in which the segments would be reported, would change in a manner that would be consistent with the internal reporting provided to the chief operating decision-maker.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

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

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

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

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

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

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

2 Summary of significant accounting policies (Continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of 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.

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

In the balance sheet of the Company, the investments in subsidiaries were stated at cost less provision for impairment losses (Note 2(f)). 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 interest as transactions with parties external to the Group. Disposals to minority interest resulted in gains and losses for the Group that were recorded in the consolidated income statement. Purchases from minority interest 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. Investment in an associate was accounted for using the equity method of accounting and were initially recognised at cost.

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

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

(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.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation

(i) *Functional Currency and presentation currency*

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

(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.

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

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

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation (Continued)

(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, were taken to the equity of the Members. When a foreign operation was partially disposed or sold, exchange differences that were recorded in equity were recognised in the income statement as part of the gain or loss on sale.

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

2 Summary of significant accounting policies (Continued)

(e) Freehold land, property, plant and equipment

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

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

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

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

– 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(f)).

Gains and losses on disposals were determined by comparing proceeds with the carrying amount and were recognised within administrative expenses in the income statement. When assets were leased out under an operating lease, the asset was included in the balance sheet based on the nature of the asset.

2 Summary of significant accounting policies (Continued)

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

Assets that had an indefinite useful life or had not yet available for use were not subject to amortisation and were tested annually for impairment. Assets were reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount might not be recoverable. An impairment loss was recognised for the amount by which the carrying amount of the asset exceeded its recoverable amount. The recoverable amount was the higher of the fair value of the asset less costs 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. Non-financial assets other than goodwill that suffered an impairment were reviewed for possible reversal of the impairment at each reporting date.

(g) 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 financial assets were recognised on trade-date - the date on which the Group committed to purchase or sell the asset. Investments were initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets were derecognised when the rights to receive cash flows from the investments had expired or were transferred and the Group had transferred substantially all risks and rewards of ownership. Available-for-sale financial assets were subsequently carried at fair value.

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

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

Dividends on available-for-sale equity instruments were recognised in the income statement as part of other gains when the right of the Group to receive payments was established.

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

2 Summary of significant accounting policies (Continued)

(g) Available-for-sale financial assets (Continued)

The Group assessed at each balance sheet date whether there was objective evidence that a financial asset or a group of financial assets was impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered as an indicator that the securities were impaired. If any such evidence existed for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was removed from equity and recognised in the 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(i).

(h) Inventories

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

(i) 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 original effective interest rate. The carrying amount of the assets was reduced through the use of an allowance account, and the amount of the loss was recognised in the income statement within administrative expenses. When a trade receivable was uncollectible, it was written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off were credited against administrative expenses in the income statement.

(j) 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.

(k) Share capital

Shares were classified as equity.

2 Summary of significant accounting policies (Continued)

(l) Trade payables

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

(m) Current and deferred income tax

The current income tax charge was calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the regions where the Company, the subsidiaries and associates of the Company operated and generated taxable income. Management periodically evaluated positions taken in tax returns with respect to situations in which applicable tax regulation was subject to interpretation and established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 differences was controlled by the Group and it was probable that the temporary differences would not reverse in the foreseeable future.

(n) 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 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. Prepaid contributions were recognised as an asset to the extent that a cash refund or a reduction in the future payments was available.

2 Summary of significant accounting policies (Continued)

(n) 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 vest. At each balance sheet date, the entity revised its estimates of the number of Options that were expected to vest. It recognised the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

(iii) *Termination benefits*

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

(iv) *Profit-sharing and bonus plan*

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

2 Summary of significant accounting policies (Continued)

(o) Revenue recognition

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

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

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

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

(ii) *Sale of services*

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

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

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

2 Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)

(iii) *Sale of mobile phones*

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

(iv) *Digital image processing management solutions*

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

(v) *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.

(vi) *Dividend income*

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

(p) Operating leases

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

(q) Borrowing costs

Borrowing costs were expensed in the period in which they were incurred.

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

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

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

3 Financial risk management

(a) Financial risk factors

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

Risk management was carried out by the Directors. The Directors identified and evaluated financial risks in close cooperation 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 three kinds of currency exposures, primarily with respect to US$, MOP and RMB. Foreign exchange risk arose from recognised assets and liabilities and net investments in foreign operations.

The Group had certain investments in foreign operations in RMB and MOP, whose net assets were exposed to foreign currency translation risk. Fluctuation in such currencies would be reflected in the movement of the translation reserve.

The Group had no material foreign currency exposure on the net monetary position of each group entity against its respective Functional Currency.

– 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. The Group was not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversified its portfolio. Diversification of the portfolio was done in accordance with the limits set by the Group.

– Cash flow and fair value interest rate risk

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

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(ii) *Credit risk*

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

(iii) *Liquidity risk*

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

Management monitored rolling forecasts of the liquidity reserve of the Group which comprised undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow.

The table below analysed the financial liabilities of the Group and the Company into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows. Balances due within twelve months equaled their carrying balances, as the impact of discounting was not significant.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) *Liquidity risk* (Continued)

	Less than one year HK$'000
Group	
As at 31st December, 2007	
Trade, bills and other payables	103,660
As at 31st December, 2006	
Bank borrowings	35,527
Trade, bills and other payables	193,089
Company	
As at 31st December, 2007	
Amounts due to subsidiaries	5,955
As at 31st December, 2006	
Amounts due to subsidiaries	3,182

(b) Fair value estimation

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

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

The carrying value less impairment of trade receivables and payables was a reasonable approximation to 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.

3 Financial risk management (Continued)

(c) Capital risk management

The objectives of the Group when managing capital were to safeguard the ability of the Group to continue as a going concern in order to provide returns for the Members and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the Members, return capital to the Members, issue new Shares or sell assets to reduce debt.

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 current income tax liabilities within the next financial year are discussed below.

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

(b) Critical judgement in applying the accounting policies of the entity - Impairment of available-for-sale financial assets

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

5 Segmental information

(a) Primary reporting format – business segments

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

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

(ii) Sale of mobile phones; and

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

On 18th September, 2007, the Group deregistered the segment of provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS (Note 36).

On 13th December, 2007, the Group determined to dispose of the operations relating to the sale of mobile phones and was expected to sell or liquidate the entire operation in 2008 (Note 36).

5 Segmental information (Continued)

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

The segment results for the Year were as follows:

	Continuing operations	Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment HK$'000	Sale of mobile phones HK$'000	Provision of multimedia value-added services via IVR, interactive Intermet solutions and premium SMS HK$'000	Total HK$'000
Revenue	328,061	58,816	14,346	73,162
Operating profit/(loss)	3,864	(478)	254	(224)
Gain on deregistration of subsidiaries	—	—	39,924	39,924
Finance income	4,497			7
Finance costs	(9)			(261)
Finance income/(costs) - net (Note 25)	4,488			(254)
Share of profit of an associate (Note 9)	127			—
Profit before income tax	8,479			39,446
Income tax credit/(expense) (Note 26)	9,617			(236)
Profit for the Year	18,096			39,210

5 Segmental information (Continued)

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

The segment results for the year ended 31st December, 2006 were as follows:

	Continuing operations	Discontinued operations			
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment HK$'000	Provision of digital image processing management solutions HK$'000	Sale of mobile phones HK$'000	Provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS HK$'000	Total HK$'000
Revenue	379,751	25,381	56,969	74,358	156,708
Operating loss	(21,323)	(3,484)	(1,844)	(14,312)	(19,640)
Impairment of goodwill	(837)	—	—	(60,212)	(60,212)
Gain on disposal of subsidiaries	—	8,137	—	—	8,137
Finance income	2,679				61
Finance costs	(1,217)				(1,156)
Finance income/(costs) – net (Note 25)	1,462				(1,095)
Share of loss of an associate (Note 9)	(257)				—
Loss before income tax	(20,955)				(72,810)
Income tax credit/(expense) (Note 26)	8,322				(215)
Loss for the year ended 31st December, 2006	(12,633)				(73,025)

5 Segmental information (Continued)

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

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

	Continuing operations	Discontinued operations			
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment HK$'000	Provision of digital image processing management solutions HK$'000	Sale of mobile phones HK$'000	Provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS HK$'000	Total HK$'000
Year					
Depreciation	1,812	—	69	—	69
Reversal of impairment of trade receivables	(5,628)	—	—	—	—
Reversal of impairment of inventories	(10,111)	—	—	—	—
Year ended 31st December, 2006					
Depreciation	3,750	308	239	1,022	1,569
Amortisation of software licence	—	—	—	597	597
Impairment of goodwill	837	—	—	60,212	60,212
Impairment of software licence	—	—	—	293	293
Impairment of trade receivables	3,424	—	294	3,591	3,885
Impairment of inventories	—	109	—	—	109

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

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

Segment liabilities comprised operating liabilities.

Capital expenditure comprised additions to property, plant and equipment (Note 7).

5 Segmental information (Continued)

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

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

	Continuing operations	Discontinued operations
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment	**Sale of mobile phones**
	HK$'000	HK$'000
Assets	272,501	5,356
Investment in an associate	572	—
Total assets	273,073	5,356
Liabilities	165,760	1,215
Capital expenditure (Note 7)	351	2

5 Segmental information (Continued)

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

The segment assets and liabilities as at 31st December, 2006 and capital expenditure for the year ended 31st December, 2006 were as follows:

	Continuing operations	Discontinued operations			
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment 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$'000	Sale of mobile phones HK$'000	Total HK$'000
Assets	378,098	—	22,856	4,426	27,282
Investment in an associate	445	—	—	—	—
Total assets	378,543	—	22,856	4,426	27,282
Liabilities	300,757	—	64,390	1,158	65,548
Capital expenditure	668	57	859	—	916

5 Segmental information (Continued)

(b) Secondary reporting format – geographical segments

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

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

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

Revenue

	2007 **HK$'000**	2006 HK$'000 (restated)
Continuing operations		
Mainland China	**105,571**	157,900
Hong Kong	**18,943**	19,014
Macao	**203,547**	202,837
	328,061	379,751
Discontinued operations		
Mainland China	**—**	562
Macao	**58,816**	81,788
Europe	**14,346**	74,358
	73,162	156,708

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

5 Segmental information (Continued)

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

Total assets

	2007 HK$'000	2006 HK$'000 (restated)
Continuing operations		
Mainland China	**82,210**	106,889
Hong Kong	**14,338**	11,377
Macao	**149,986**	244,311
	246,534	362,577
Investment in an associate (Note 9)	**572**	445
Unallocated assets	**25,967**	15,521
	273,073	378,543
Discontinued operations		
Macao	**5,356**	4,426
Europe	**—**	22,856
	5,356	27,282

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

Capital expenditures

	2007 HK$'000	2006 HK$'000 (restated)
Continuing operations		
Mainland China	**210**	324
Hong Kong	**6**	63
Macao	**135**	281
	351	668
Discontinued operations		
Macao	**2**	57
Europe	**—**	859
	2	916

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

5 Segmental information (Continued)

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

Analysis of revenue by category

	2007 HK$'000	2006 HK$'000 (restated)
Continuing operations		
Revenue from design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment	**328,061**	379,751
Discontinued operations		
Revenue from provision of digital image processing management solutions (Note 36)	**—**	25,381
Sale of mobile phones (Note 36)	**58,816**	56,969
Revenue from provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS (Note 36)	**14,346**	74,358
	73,162	156,708

6 Freehold land – Group

Freehold land was located in Macao and carried at cost, which was reclassified to non-current assets held for sale as at 31st December, 2007 (Note 36) .

7 Property, plant and equipment – Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures, office equipment and leased equipment HK$'000	Motor vehicles HK$'000	Demonstration equipment HK$'000	Total HK$'000
As at 1st January, 2006						
Cost	280	5,569	51,751	3,435	491	61,526
Accumulated depreciation	(19)	(3,620)	(44,714)	(2,189)	(417)	(50,959)
Net book amount	261	1,949	7,037	1,246	74	10,567
Year ended 31st December, 2006						
Opening net book amount	261	1,949	7,037	1,246	74	10,567
Exchange differences	–	–	240	100	–	340
Additions	–	66	978	338	–	1,382
Disposal of subsidiaries	–	(662)	(377)	–	(34)	(1,073)
Disposals	–	–	(38)	(286)	–	(324)
Depreciation for continuing operations (Note 22)	–	(591)	(2,938)	(214)	(7)	(3,750)
Depreciation for discontinued operations – TCM and MIHL	–	(156)	(1,112)	(29)	(33)	(1,330)
Depreciation - CAOCL	(14)	(182)	(37)	(6)	–	(239)
Less: included in non-current assets held for sale - TCM	–	–	(1,641)	(876)	–	(2,517)
Closing net book amount	247	424	2,112	273	–	3,056
As at 31st December, 2006						
Cost	280	2,617	16,193	2,406	281	21,777
Accumulated depreciation	(33)	(2,193)	(14,081)	(2,133)	(281)	(18,721)
Net book amount	247	424	2,112	273	–	3,056
Year						
Opening net book amount	247	424	2,112	273	–	3,056
Exchange differences	(16)	4	70	6	–	64
Additions	–	2	351	–	–	353
Depreciation for continuing operations (Note 22)	–	(310)	(1,414)	(88)	–	(1,812)
Depreciation for discontinued operations - CAOCL	(14)	(20)	(29)	(6)	–	(69)
Less: included in non-current assets held for sale - CAOCL	(217)	–	(6)	(11)	–	(234)
Closing net book amount	–	100	1,084	174	–	1,358
As at 31st December, 2007						
Cost	–	2,634	10,730	2,446	279	16,089
Accumulated depreciation	–	(2,534)	(9,646)	(2,272)	(279)	(14,731)
Net book amount	–	100	1,084	174	–	1,358

7 Property, plant and equipment – Group (Continued)

Depreciation expense was charged to administrative expenses.

The Group leased out equipment to a lessee under an agreement which terminated in 2007. The agreement did not include an extension option. Lease rentals amounting to approximately HK$999,000 (2006: HK$1,727,000) relating to the lease of leased equipment were included in the income statement.

The category of furniture, fixtures, office equipment and leased equipment included leased equipment leased by the Group to third parties under operating lease with the following carrying amounts:

	2007 **HK$'000**	2006 HK$'000
Cost	**5,459**	5,459
Accumulated depreciation as at 1st January	**(4,851)**	(3,032)
Depreciation charge for the Year	**(608)**	(1,819)
Net book amount	**—**	608

8 Investments in subsidiaries and amounts due from/to subsidiaries – Company

(a) Investments in subsidiaries

	2007 **HK$'000**	2006 HK$'000
Investments, at cost, unlisted	**73,918**	73,918
Impairment of investments in subsidiaries	**—**	(31,332)
	73,918	42,586

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

(a) Investments in subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2007:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
泰思通軟件（上海）有限公司 ("TSTSH")	PRC, limited liability company	Research and development of software and related software consultancy services in Mainland China	US$510,000	83%
廣州市愛達利發展有限公司 ("GVDL")	PRC, limited liability company	Design, sale and implementation of data networking systems and provision of related engineering services in Mainland China	RMB3,000,000	54%
廣州市圖交資訊有限公司 ("GZIC")	PRC, limited liability company	Provision of Internet related data services in Mainland China	RMB1,000,000	44% (Note (i))
廣州愛達利科技有限公司	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 ("CAOCL")	Macao, limited liability company	Sale of mobile phones in Macao	MOP3,002,000	100%
Guangzhou Thinker Vodatel Limited ("GTVL")	PRC, limited liability company	Research and development of wireless data communications and Internet related products in Mainland China	US$3,000,000	82%
Multi Asia (HK) Limited	Hong Kong, limited liability company	Dormant	1 ordinary share of HK$1 each	100%
Mega Datatech Limited ("MDL")	Macao, limited liability company	Provision of computer software, hardware and system integration in Macao	MOP100,000	100%

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

(a) Investments in subsidiaries (Continued)

The following was a list of the principal subsidiaries as at 31st December, 2007: (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
Power Express (Macau) Limited	Macao, limited liability company	Sale of communications equipment in Macao	MOP1,685,400	100%
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 ("VHL")	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% (Note (ii))
Vodatel Networks (H.K.) Limited	Hong Kong, limited liability company	Sale of data networking systems and provision of related engineering services in Hong Kong	2 ordinary shares of HK$1 each	100%
Vodatel Systems Inc.	BVI, limited liability company	Design, sale and implementation of data networking systems and provision of related engineering services in Macao	1,000 ordinary shares of US$1 each	100%
Vodatel Systems Inc. – Macao Commercial Offshore	Macao, limited liability company	Dormant	MOP100,000	100%
Vodatel Systems (HK) Limited	BVI, limited liability company	Provision of warehouse services in Hong Kong	1,000 ordinary shares of US$1 each	100%

Notes:

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

(ii) Shares held directly by the Company.

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

(b) Amounts due from/to subsidiaries

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

9 Investment in an associate – Group

	2007 HK$'000	2006 HK$'000
Beginning of the Year	**445**	1,832
Share of profit/(loss)	**127**	(257)
	572	1,575
Disposal (Note)	**—**	(1,130)
End of the Year	**572**	445

The share of the results of the Group in its associate, which was unlisted, was as follows:

Name	Particulars of registered share capital held	Place of incorporation	Assets HK$'000	Liabilities HK$'000	Revenue HK$'000	Profit HK$'000	Effective interest held
Year							
Source Tech Limited ("STL")	MOP100,000	Macao	1,640	368	2,008	283	45%
Year ended 31 st December, 2006							
STL	MOP100,000	Macao	1,490	500	2,864	248	45%

Note:

On 30th November, 2006, the Group disposed of its interest in 廣州普天同創通信科技有限公司, a company incorporated in PRC with limited liability and an indirectly owned associate of the Company prior to disposal, to a minority shareholder of GTVL for a cash consideration of RMB500,000 (approximately HK$499,000). A loss of approximately HK$631,000 was recognised and included in administrative expenses (Note 22).

10 Financial instruments by category – Group and Company

The accounting policies for financial instruments were applied to the line items below:

Group

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Assets as per consolidated balance sheet			
As at 31st December, 2007			
Available-for-sale financial assets (Note 12)	—	25,967	25,967
Trade, bills and other receivables, deposits and prepayments (Note 15)	146,176	—	146,176
Pledged bank deposits (Note 16)	8,475	—	8,475
Cash and cash equivalents (Note 16)	64,429	—	64,429
Total	219,080	25,967	245,047
As at 31st December, 2006			
Available-for-sale financial assets (Note 12)	—	15,502	15,502
Trade, bills and other receivables, deposits and prepayments (Note 15)	198,189	—	198,189
Loaned asset (Note 13)	38,748	—	38,748
Cash and cash equivalents (Note 16)	107,928	—	107,928
Total	344,865	15,502	360,367

10 Financial instruments by category – Group and Company (Continued)

Group (Continued)

	Other financial liabilities HK$'000
Liabilities as per consolidated balance sheet	
As at 31st December, 2006	
Borrowings (Note 18)	35,527

Company

	Loans and receivables HK$'000
Assets as per balance sheet	
As at 31st December, 2007	
Amounts due from subsidiaries (Note 8)	126,364
Other receivables, deposits and prepayments (Note 15)	126
Cash and cash equivalents (Note 16)	214
Total	126,704
As at 31st December, 2006	
Amounts due from subsidiaries (Note 8)	129,961
Other receivables, deposits and prepayments (Note 15)	271
Cash and cash equivalents (Note 16)	336
Total	130,568

	Other financial liabilities HK$'000
Liabilities as per balance sheet	
As at 31st December, 2007	
Amounts due to subsidiaries (Note 8)	5,955
As at 31st December, 2006	
Amounts due to subsidiaries (Note 8)	3,182

11 Credit quality of financial assets – Group and Company

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

(a) Trade and bills receivables

	2007 HK$'000	2006 HK$'000
Counterparties with external credit rating (Moody's)		
A2	**5**	5
A3	**10,959**	5,437
Aa2	**324**	19
Aa3	**19,349**	13,372
B1	**7,913**	14,433
Ba2	**7,303**	—
Ba3	**3,019**	466
Counterparties without external credit rating		
New customers (less than six months)	**163**	—
Existing customers (more than six months) with no defaults in the past	**77,787**	138,229
Total trade and bills receivables	**126,822**	171,961

(b) Pledged bank deposits

	Group	
	2007 HK$'000	2006 HK$'000
A2	**3,543**	—
Banks in Mainland China without external credit rating	**4,932**	—
	8,475	—

11 Credit quality of financial assets – Group and Company (Continued)

(c) Cash and bank and short-term bank deposits

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
A1	**17,493**	26,286	**—**	—
A2	**4,156**	12,482	**—**	—
A3	**19**	20	**—**	—
Aa1	**189**	186	**—**	—
Aa2	**971**	1,734	**—**	—
Aa3	**6,411**	6,522	**205**	326
Baa3	**284**	53	**—**	—
Banks in Macao and Mainland China without external credit rating	**34,418**	59,791	**9**	10
Cash	**488**	854	**—**	—
	64,429	107,928	**214**	336

None of the financial assets that are fully performing were renegotiated in the last year.

12 Available-for-sale financial assets – Group

	2007 HK$'000	2006 HK$'000
Beginning of the Year	**15,502**	19,663
Disposal	**(175)**	—
Net gains/(losses) transfer to reserves (Note 20(a))	**10,640**	(4,161)
End of the Year	**25,967**	15,502

Available-for-sale financial assets included the following:

	2007 HK$'000	2006 HK$'000
Equity securities:		
– Listed – Hong Kong (Note)	**18,726**	8,606
– Unlisted	**7,241**	6,896
	25,967	15,502
Market value of listed securities	**18,726**	8,606

12 Available-for-sale financial assets – Group (Continued)

Available-for-sale financial assets were denominated in the following currencies:

	2007 **HK$'000**	2006 HK$'000
HK$	**18,726**	8,607
MOP	**1,456**	1,110
US$	**5,785**	5,785
	25,967	15,502

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 ("MTNHL")	The Cayman Islands, limited liability company	Development, provision and sale of mobile Internet communication, telecommunication and related services in Hong Kong and other Asian countries	472,811,363 ordinary shares of US$0.01 each	20%

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

13 Loaned asset – Group

	2007 **HK$'000**	2006 HK$'000
Unlisted debt securities traded on inactive markets and private issuers:		
Beginning of the Year	**38,748**	38,597
Revaluation (Note 20(a))	**—**	151
Expired and settled	**(38,748)**	—
End of the Year	**—**	38,748
Less: current portion	**—**	(38,748)
	—	—

The loaned asset represented unlisted debt securities traded on inactive markets and issued by private issuers, which was matured and settled in October, 2007.

14 Inventories – Group

	2007 **HK$'000**	2006 HK$'000
Networking and image processing equipment	**25,062**	15,478
Mobile phones	**—**	667
	25,062	16,145

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK$223,576,000 (2006: approximately HK$289,464,000).

As at 31st December, 2007, there was no inventories that were carried at net realisable value (2006: HK$5,938,000).

15 Trade, bills and other receivables, deposits and prepayments – Group and Company

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivables	**199,335**	249,727	**—**	—
Less: provision for impairment of receivables	**(72,513)**	(77,766)	**—**	—
Trade and bills receivables – net	**126,822**	171,961	**—**	—
Other receivables, deposits and prepayments	**19,354**	26,228	**126**	271
	146,176	198,189	**126**	271

The carrying amounts of the trade, bills and other receivables, deposits and prepayments approximated their fair value.

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

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

15 Trade, bills and other receivables, deposits and prepayments – Group and Company (Continued)

Trade receivables that were less than one year past due were not considered impaired. As at 31st December, 2007, trade receivables of HK$126,822,000 (2006: HK$171,961,000) were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default. The ageing analysis of these trade and bills receivables was as follows:

	2007 HK$'000	2006 HK$'000
Within three months	**93,866**	110,657
> Three months but ≤ six months	**9,068**	20,225
> Six months but ≤ twelve months	**12,124**	18,571
Over twelve months	**11,764**	22,508
	126,822	171,961

As at 31st December, 2007, trade and bills receivables of HK$72,513,000 (2006: HK$77,766,000) were impaired. The amount of the provision was HK$72,513,000 (2006: HK$77,766,000). The individually impaired receivables mainly relate to customers, which were in unexpected difficult economic situations. It was assessed that a portion of the receivables was expected to be recovered. The ageing of these receivables was more than twelve months.

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

	2007 HK$'000	2006 HK$'000
HK$	**18,688**	7,682
US$	**13,938**	66,007
MOP	**76,088**	71,734
RMB	**37,462**	52,766
	146,176	198,189

15 Trade, bills and other receivables, deposits and prepayments – Group and Company (Continued)

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

	2007 HK$'000	2006 HK$'000
As at 1st January,	**77,766**	87,284
Less: included in non-current assets held for sale	**(294)**	(13,236)
As at 1st January, (restated)	**77,472**	74,048
Translation differences	**669**	—
Impairment for continuing operations (Note 22)	**1,578**	3,424
Impairment for discontinued operations	**—**	294
Unused amounts reversed (Note 22)	**(7,206)**	—
As at 31st December,	**72,513**	77,766

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

The other classes within trade, bills and other receivables, deposits and prepayments did not contain impaired assets.

The maximum exposure to credit risk at the reporting date was the fair value of each class of receivable mentioned above. The Group did not hold any collateral as security.

16 Pledged bank deposits, cash and cash equivalents – Group and Company

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Cash at bank and in hand	**40,566**	107,914	**214**	336
Short-term bank deposits	**32,338**	14	**—**	—
	72,904	107,928	**214**	336
Less: Pledged bank deposits	**(8,475)**	—	**—**	—
Maximum exposure to credit risk	**64,429**	107,928	**214**	336

16 Pledged bank deposits, cash and cash equivalents – Group and Company (Continued)

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

	Group	
	2007 **HK$'000**	2006 HK$'000
Cash and cash equivalents	**64,429**	107,928
Bank overdrafts (Note 18)	**—**	(517)
	64,429	107,411

17 Trade, bills and other payables and accruals – Group and Company

	Group		Company	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
Trade and bills payables	**89,839**	165,151	**—**	—
Other payables and accruals	**42,963**	56,194	**3,365**	3,658
	132,802	221,345	**3,365**	3,658

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

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

Note:

Included in other payables and accruals were approximately HK$95,000 (2006: HK$561,000) and HK$350,000 (2006: HK$452,000), which were due to José Manuel dos Santos, a Director, and a related company owned by him respectively.

18 Borrowings – Group

	2007 HK$'000	2006 HK$'000
Current		
Bank overdrafts (Note 16)	—	517
Bank borrowings, secured	—	35,010
Total borrowings	—	35,527

Bank borrowings, bore an annual coupon rate of 2.56% annually, were repaid in the Year.

As at 31st December, 2006, the borrowings of the Group were repayable within one year.

The effective interest rates as at 31st December, 2006 were as follows:

	2006	
	MOP	**US$**
Bank overdrafts	9%	—
Bank borrowings	—	2.56%

As at 31st December, 2006, secured bank borrowings of approximately HK$35,010,000 were secured by unlisted debt securities traded on inactive markets and of private issuers of approximately HK$38,748,000 (Note 13).

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

	2007 HK$'000	2006 HK$'000
Six months or less	—	517
Six months to twelve months	—	35,010
	—	35,527

The carrying amounts of all borrowings approximated their fair value.

18 Borrowings – Group (Continued)

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

	2007 HK$'000	2006 HK$'000
MOP	—	517
US$	—	35,010
	—	35,527

The Group had the following undrawn borrowing facilities:

	2007 HK$'000	2006 HK$'000
Floating rate – expiring beyond one year	**74,115**	135,577

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

19 Share capital

	Number of Shares	Ordinary Shares HK$'000	Share premium HK$'000	Total HK$'000
As at 1st January, 2006, and 31st December, 2006	613,819,000	61,382	97,676	159,058
Reduction of share premium credited to contributed surplus (Note 20)	—	—	(97,676)	(97,676)
As at 31st December, 2007	613,819,000	61,382	—	61,382

The total authorised number of Shares was 2,000,000,000 (2006: 2,000,000,000) with a par value of HK$0.10 per Share (2006: HK$0.10 per Share). All issued Shares were fully paid.

Pursuant to the annual general meeting of the Company held on 29th June, 2007, the entire amount standing to the credit of share premium account of the Company with an amount of HK$97,676,000 was reduced and credited to contributed surplus.

19 Share capital (Continued)

Options

Options were granted to all Directors, certain consultants and employees. The exercise price of the granted Options was equal to the market price of the Shares on the date of the grant. The Options were exercisable starting on the date of the grant. The Group had no legal or constructive obligation to repurchase or settle the Options in cash.

Movements in the number of Options outstanding were as follows:

	2007	2006
As at 1st January,	**—**	12,896,000
Granted	**23,380,000**	—
Cancelled	**(70,000)**	—
Lapsed	**(36,000)**	(12,896,000)
As at 31st December,	**23,274,000**	—

Options outstanding as at 31st December, 2007 had an expiry date on 11th July, 2010 at a Subscription Price of HK$0.32 per Share.

Options outstanding as at 1st January, 2006 lapsed in the year ended 31st December, 2006 had an expiry date on 29th June, 2006 at a Subscription Price of HK$0.42 per Share.

The fair value of the Options granted during the Year using the binomial model was approximately HK$0.10 per Option. The significant inputs into the model were Share price of HK$0.32 at the grant date, Subscription Price shown above, volatility of the underlying Shares of 94.06%, expected dividend paid out rate of 0% and annual risk-free interest rate of 4.38%. The volatility measured is based on the three-year historical volatility of the price return of the Shares. See Note 24 for the total expense recognised in the income statement for Options granted to the Directors and employees.

20 Other reserves – Group and Company

(a) Group

	Contributed surplus HK$'000	Other reserve HK$'000	Capital redemption reserve HK$'000	Available-for-sale investments reserve HK$'000	Merger reserve HK$'000 (Note (i))	Translation reserve HK$'000	Statutory reserve HK$'000 (Note (ii))	Total HK$'000
Balance as at 1st January, 2006	–	–	702	(7,526)	35,549	248	49	29,022
Revaluation (Notes 12 and 13)	–	–	–	(4,010)	–	–	–	(4,010)
Currency translation differences	–	–	–	–	–	(664)	–	(664)
Balance as at 31st December, 2006	–	–	702	(11,536)	35,549	(416)	49	24,348
Revaluation (Note 12)	–	–	–	10,640	–	–	–	10,640
Reserves transferred to income statement upon disposal of loaned asset	–	–	–	(22)	–	–	–	(22)
Reserves transferred to income statement upon deregistration of TCM	–	–	–	–	–	1,671	–	1,671
Currency translation differences	–	–	–	–	–	116	–	116
Reduction of share premium credited to contributed surplus (Note 19)	97,676	–	–	–	–	–	–	97,676
Share-based compensation	–	2,289	–	–	–	–	–	2,289
Balance as at 31st December, 2007	97,676	2,289	702	(918)	35,549	1,371	49	136,718

Notes:

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

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

20 Other reserves – Group and Company (Continued)

(b) Company

	Contributed surplus HK$'000 (Note (i))	Other reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance as at 1st January, 2006	73,718	—	702	(22,646)	51,774
Loss for the year ended 31st December, 2006	—	—	—	(44,518)	(44,518)
Balance as at 31st December, 2006	73,718	—	702	(67,164)	7,256
Reduction of share premium credited to contributed surplus (Note 19)	97,676	—	—	—	97,676
Share-based compensation	—	2,289	—	—	2,289
Profit for the Year	—	—	—	22,699	22,699
Balance as at 31st December, 2007	171,394	2,289	702	(44,465)	129,920

Notes:

(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 and the entire amount standing to the credit of share premium account of the Company reduced and credited to contributed surplus. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus was distributable to the Members, subject to the condition that the Company could not declare or pay a dividend, or make a distribution out of contributed surplus if it was, or would after the payment be, unable to pay its liabilities as they become due, or 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, 2007 amounted to approximately HK$126,929,000(2006: HK$6,554,000).

21 Deferred income tax – Group

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$1,964,000 (including HK$500,000 from discontinued operations) (2006: approximately HK$50,470,000) in respect of losses amounting to approximately HK$12,784,000 (including HK$4,166,000 from discontinued operations) (2006: approximately HK$201,295,000) that could be carried forward against future taxable income. The tax losses incurred in Hong Kong would not expire. The tax losses incurred in Macao would expire after three years.

There was no other material unprovided deferred income tax as at 31st December, 2007.

22 Expenses by nature

	2007 **HK$'000**	2006 HK$'000 (restated)
Auditors' remuneration		
– charge for the Year	**2,991**	3,322
– (over)/under provision in prior years	**(483)**	482
Cost of inventories (Note 14)	**223,576**	289,464
Depreciation (Note 7)	**1,812**	3,750
Employee benefit expense (including Directors' emoluments) (Note 24)	**44,111**	39,601
Reversal of impairment of inventories	**(10,111)**	—
(Reversal of impairment)/impairment of trade receivables (Note 15)	**(5,628)**	3,424
Gain on disposal of property, plant and equipment	**(1,250)**	(1,518)
Loss of disposal of an associate (Note 9)	**—**	631
Operating lease payments		
– land and buildings	**2,333**	2,362
Transportation expenses	**1,003**	1,650
Other expenses	**69,014**	57,466
Total cost of sales, selling and marketing costs and administrative expenses	**327,368**	400,634

23 Other gains/(losses) – net

	2007 HK$'000	2006 HK$'000 (restated)
Dividend income from unlisted investments	**2,735**	—
Loss on disposal of other financial assets through profit or loss	**—**	(565)
Other gains	**436**	125
	3,171	(440)

24 Employee benefit expense

	2007 HK$'000	2006 HK$'000 (restated)
Wages and salaries	**39,361**	37,631
Directors' fees	**880**	880
Social security costs	**1,450**	1,011
Share-based compensation	**2,289**	—
Pension costs – defined contribution plans	**131**	128
Long service payment	**—**	(49)
	44,111	39,601

(a) Pensions – defined contribution plans

Contributions totaling HK$131,000 (2006: HK$128,000) were payable to the fund as at 31st December, 2007.

24 Employee benefit expense (Continued)

(b) Directors' and senior management's emoluments

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

Name of Director	Fees	Salary	Options	Employer's contribution to pension scheme	Total
	Continuing operations HK$'000	Continuing operations HK$'000	Continuing operations HK$'000	Continuing operations HK$'000	Continuing operations HK$'000
José Manuel dos Santos	130	3,925	79	—	4,134
Yim Hong	130	1,652	79	14	1,875
Kuan Kin Man	130	751	79	—	960
Monica Maria Nunes	130	631	79	13	853
Chui Sai Cheong (Note)	120	—	49	—	169
Lo King Chiu Charles	120	—	49	—	169
Fung Kee Yue Roger	120	—	49	—	169

Note:

Resigned on 15th February, 2008.

The remuneration of every Director for the year ended 31st December, 2006 was set out below:

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

No Director waived or agreed to waive any of their emoluments in respect of the Year and the year ended 31st December, 2006.

24 Employee benefit expense (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Year included four (2006: two) Directors whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining one (2006: three) individual during the Year were as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries and allowances	**730**	3,457
Bonuses	**40**	659
Pension costs – defined contribution plan	**—**	344
	770	4,460

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
HK$500,001 – HK$1,000,000	**1**	—
HK$1,000,001 – HK$1,500,000	**—**	1
HK$1,500,001 – HK$2,000,000	**—**	2

25 Finance income and costs

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

26 Income tax credit

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

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

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

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

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

27 Net foreign exchange gains

The net exchange differences credited in the consolidated income statement were included as follows:

	2007 **HK$'000**	2006 HK$'000
Administrative expenses	**(2)**	(1,457)

28 Profit/(loss) attributable to equity holders of the Company

The profit attributable to equity holders of the Company was dealt with in the financial statements of the Company to the extent of approximately HK$22,699,000 (2006: loss of HK$44,518,000).

29 Earnings/(loss) per Share

(a) Basic

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

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

29 Earnings/(loss) per Share (Continued)

(b) Diluted

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

30 Dividends

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

31 Cash (used in)/generated from operations

Reconciliation of profit/(loss) before income tax to cash (used in)/generated from operations:

	2007 HK$'000	2006 HK$'000 (restated)
Profit/(loss) before income tax		
– Continuing operations	**8,479**	(20,955)
– Discontinued operations	**(478)**	(80,947)
– Gain on disposal of subsidiaries	**39,924**	8,137
	47,925	(93,765)
Adjustments for:		
– Amortisation of software licence	**—**	597
– Depreciation	**1,881**	5,319
– Dividend income	**(2,735)**	—
– Gain on disposal of subsidiaries	**(39,924)**	(8,137)
– Goodwill impairment charge	**—**	61,049
– Loss on disposal of other financial assets through profit or loss	**—**	592
– Loss on disposal of available-for-sale financial assets	**175**	—
– Reversal of impairment of inventories	**(10,111)**	—
– Share of (profit)/loss from an associate	**(127)**	257
– Impairment of software licence	**—**	293
– (Reversal of impairment)/ impairment of trade receivables	**(5,628)**	7,309
– Interest income	**(4,497)**	(2,740)
– Gain on disposal of property, plant and equipment	**(1,250)**	(1,518)
– Finance costs	**9**	2,373
– Loss on disposal of an associate	**—**	631
– Loss on disposal of intangible assets	**—**	128
	(14,282)	(27,612)
Changes in working capital		
– Inventories	**101**	511
– Trade, bills, and other receivables, deposits and prepayments	**56,447**	36,121
– Trade and bills payables	**(74,685)**	18,600
– Other payables and accruals	**(12,641)**	12,058
Cash (used in)/generated from operations	**(45,060)**	39,678

31 Cash (used in)/generated from operations (Continued)

Reconciliation of profit/(loss) before income tax to cash (used in)/generated from operations: (Continued)

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

	2007 HK$'000	2006 HK$'000
Net book amount	**—**	324
Gain on disposal of property, plant and equipment	**1,250**	1,518
Proceeds from disposal of property, plant and equipment	**1,250**	1,842

32 Contingencies

The Group has given guarantees issued by certain banks arising in the ordinary course of business amounting to HK$19,177,000 (2006: HK$10,392,000) to independent third parties.

The Company has given guarantees in the ordinary course of business amounting to approximately HK$77,738,000 (2006: HK$162,465,000) to subsidiaries.

The Company executed guarantees amounting to approximately HK$3,782,000 (2006: HK$21,360,000) with respect to banking facilities and trade credits made available to its subsidiaries.

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

33 Operating lease commitments – where the Group was the lessee

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

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

	2007 HK$'000	2006 HK$'000
No later than one year	**1,215**	2,715
Later than one year and no later than five years	**1,169**	1,600
	2,384	4,315

34 Operating leases – where the Group was the lessor

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

	2007 HK$'000	2006 HK$'000
No later than one year	**—**	899

35 Related party transactions

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

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

	2007 HK$'000	2006 HK$'000
Sale of goods	**40**	31
Purchase of goods	**(148)**	—
Operating lease payments	**(108)**	(717)

(b) During the Year, the Group paid occupancy costs of approximately HK$767,000 (2006: HK$108,000) to a Director, José Manuel dos Santos. During the year ended 31st December, 2006, the Group paid occupancy costs of approximately HK$54,000 to a director of a subsidiary.

(c) During the Year, the Group sold goods of approximately HK$74,000 (2006: Nil) to Chui Sai Cheong, a Director who resigned on 15th February, 2008.

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

(e) During the year ended 31st December, 2006, the Group paid management fee of approximately HK$36,000 to a company owned by a former director of various subsidiaries.

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

35 Related party transactions (Continued)

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

(h) As at 31st December, 2007, other receivables, deposits and prepayments consisted of receivable from a director of a subsidiary of approximately HK$100,000 (2006: HK$100,000).

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

36 Non-current assets held for sale and discontinued operations

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

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

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

(a) Non-current assets held for sale

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

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

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

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

(c) Analysis of the results of discontinued operations

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

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

(d) Analysis of the cash flows from discontinued operations

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

(e) Expenses by nature

	2007 HK$'000	2006 HK$'000 (restated)
Amortisation of software licence	**—**	597
Cost of inventories	**57,366**	97,200
Depreciation	**69**	1,569
Employee benefit expense	**4,993**	24,950
Impairment of software licence	**—**	293
Impairment of trade receivables	**—**	3,885
Impairment of inventories	**—**	109
Operating lease payments		
– land and buildings	**350**	3,448
Other expenses	**10,708**	47,369
Total cost of sales, selling and marketing costs and administrative expenses	**73,486**	179,420

37 Events after the balance sheet date

On 19th February, 2008, a sale and purchase deed was entered into between CAOCL and José Manuel dos Santos, a Director, relating to the sale of the Property for HK$4,800,000, which was satisfied by José Manuel dos Santos in cash. The carrying value of the Property as at 31st December, 2007 amounting to approximately HK$2,020,000.

Five Fiscal Periods Financial Summary

Results	Year ended 31st December, 2007 HK$'000	2006 HK$'000	2005 HK$'000	Eighteen months ended 31st December, 2004 HK$'000	Year ended 30th June, 2003 HK$'000
Profit/(loss) attributable to					
– equity holders	**56,065**	(84,094)	(37,488)	(173,625)	10,594
– minority interest	**1,241**	(1,564)	(3,060)	(17,277)	(562)
Assets and liabilities					
Total assets	**278,429**	405,825	523,695	585,170	491,822
Total liabilities	**(166,975)**	(366,305)	(391,931)	(400,365)	(145,153)
Total equity	**111,454**	39,520	131,764	184,805	346,669

Definitions

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

"AIOUM"	Asia International Open University (Macau)
"Associate"	has the meaning ascribed thereto in the GEM Listing Rules
"Associated Corporations"	corporations: –
	1. which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or
	2. (not being subsidiaries of the Company) in which the Company has an interest in the shares of a class comprised in its share capital exceeding in nominal value one-fifth of the nominal value of the issued share of that class
"Audit Committee"	the audit committee of the Company
"Auditors"	the auditors of the Company
"Australia"	The Commonwealth of Australia
"Board"	the board of the Directors
"BVI"	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 in Note 8(a) 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
"CNMS"	customer network management system
"CO"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended form time to time
"Company"	Vodatel Networks Holdings Limited
"Connected Person"	has the meaning ascribed thereto in the GEM Listing Rules
"Director(s)"	the director(s) of the Company

Definitions

"ERL"	Eve Resources Limited, a company incorporated in BVI with limited liability
"Exchange"	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
"Functional Currency"	the currency of the primary economic environment in which an entity operates
"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 CO by the Chief Secretary for Administration 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
"Grantee"	any Participant who has been offered and has accepted an offer of the grant of an Option made pursuant to the Scheme in accordance with its terms, or (where the context so permits) any person who is entitled to any such Option in consequence of the death of the original Grantee
"Group" or "Vodatel"	the Company and its subsidiaries
"GTVL"	Guangzhou Thinker Vodatel Limited, details of which can be referred to in Note 8(a) to the financial statements
"GVDL"	廣州市愛達利發展有限公司， details of which can be referred to in Note 8(a) to the financial statements
"GZIC"	廣州市圖文資訊有限公司，details of which can be referred to in Note 8(a) 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(s)
"HKFRS"	standards and interpretations issued by the HKICPA. They comprise 1. Hong Kong Financial Reporting Standards, 2. HKAS (formerly Statement of Standard Accounting Practice), and 3. Interpretations
"HKICPA"	the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)
"HK(IFRIC) – Int"	Hong Kong (IFRIC) Interpretation

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC (not applicable to Hong Kong Financial Reporting Standards, Hong Kong Accounting Standard, Hong Kong (IFRIC) Interpretation, The Stock Exchange of Hong Kong Limited, the Hong Kong Institute of Certified Public Accountants and Tidestone Science and Technology (Hong Kong) Comapny Limited)
"IVR"	interactive voice response
"LRL"	Lois Resources Limited, a company incorporated in BVI with limited liability
"Macao"	the Macao Special Administrative Region of the PRC (not applicable to the Macao Junior Chamber of Commerce and Vodatel Systems Inc. - Macao Commercial Offshore)
"Main Board"	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
"Mainland China"	PRC, other than the regions of Hong Kong, Macao and Taiwan
"MDL"	Mega Datatech Limited, details of which can be referred to in Note 8(a) to the financial statements
"Member(s)"	the holder(s) of the Shares
"MIHL"	AGTech Holdings Limited, a company incorporated in Bermuda with limited liability and shares of HK$0.01 each in the capital of MIHL are listed on GEM (formerly known as MegaInfo Holdings Limited)
"MOP"	Patacas, the lawful currency of Macao
"MTNHL"	Mobile Telecom Network (Holdings) Limited, details of which can be referred to in Note 12 to the financial statements, and shares of US$0.01 each in the capital of MTNHL are listed on GEM
"Nomination Committee"	the nomination committee of the Company
"Offer Date"	the date of which the offer of the grant of an Option made pursuant to the Scheme is made to a Participant
"Options"	a right to subscribe for Shares granted pursuant to the Scheme
"Participant(s)"	any employee of the Group, including Directors, at the time when the Option is granted to such employee, and certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed or will contribute or can contribute to the Group
"PRC"	The People's Republic of China
"Property"	Rua Ribeira do Patane, nºs 52A-52D, Edifício Cho Cheong, A r/c, Macao

Definitions

"QM"	Queen Mary and Westfield College to the University of London
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of Mainland China
"Scheme"	the share option scheme approved by the Members at a special general meeting on 5th November, 2002
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company
"SMS"	short message services
"STL"	Source Tech Limited, details of which can be referred to in Note 9 to the financial statements
"Subscription Price"	the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option granted pursuant to the Scheme
"Substantial Shareholders"	in relation to a company mean a person who are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
"TCM"	Teleconcept-Multimedia N.V., a deregistered company incorporated in the Kingdom of the Netherlands with limited liability
"TSTSH"	泰思通軟件（上海）有限公司, details of which can be referred to in Note 8(a) to the financial statements
"TTSA"	Timor Telecom S.A., a company incorporated in the Democratic Republic of Timor-Leste with limited liability
"UK"	The United Kingdom of Great Britain and Northern Ireland
"UM"	University of Macau
"US$"	United States Dollar, the lawful currency of USA
"USA"	The United States of America
"VHL"	Vodatel Holdings Limited, details of which can be referred to in Note 8(a) to the financial statements
"Year"	the year ended 31st December, 2007
"Zetronic"	Zetronic Communications (Macau) Limited, a company incorporated in Macao with limited liability