



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司 *

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

INTERIM REPORT

2006

* for identification purpose only

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.

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

Business and Financial Highlights for the Three-Month Period and Six-Month Period

- Turnover for the Six-Month Period reached HK\$263,248,000, representing an increase of 48.09% over the preceding period
- Operating results of the core businesses continued to show improvements, with operating profit of HK\$9,875,000 for the Six-Month Period
- Affected by the results and the impairment of goodwill of TCM, the Group reported net loss of HK\$17,838,000 attributable to its equity holders for the Six-Month Period
- The OSS of TSTSH continued to receive good responses with the Customer Service and Network Management System module and the Fault Management System module successfully sold to Chongqing China Telecom and Jiangsu China Telecom respectively
- Taking advantage of the BizNavigator, working in collaboration with China Telecom to offer value-added services in sales, inventory and production management to its customers via their existing telecommunications networks and resources
- Business in Macao remained strong with the Group continuing to provide surveillance and digital radio trunking systems for various gaming and hotel operators
- STASA continued to work closely with different national TV stations in Spain, launching new IVR and SMS services
- Disposed all its shareholding in MIHL for consideration of HK\$10,378,500, bringing in a gain on disposal of approximately HK\$7,600,000
- The Board did not recommend payment of a dividend for the Six-Month Period

Interim Results

The Board is pleased to present the unaudited consolidated results of the Group for the Three-Month Period and Six-Month Period as follows:

Condensed Consolidated Interim Balance Sheet

	Note	As at 30th June, 2006 Unaudited HK\$'000	As at 31st December, 2005 Audited HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		9,991	12,587
Intangible assets		31,269	58,165
Interests in associates		1,756	1,832
Available-for-sale financial assets		12,277	19,663
Loaned assets		38,597	38,597
		93,890	130,844
Current assets			
Inventories		27,161	18,619
Income tax prepaid		84	84
Trade and bills receivables	5	192,710	241,911
Other receivables, deposits and prepayments		33,979	27,817
Loans and receivable		—	774
Other financial assets at fair value through profit or loss		—	592
Cash and cash equivalents		106,184	103,054
		360,118	392,851

	Note	As at 30th June, 2006 Unaudited HK\$'000	As at 31st December, 2005 Audited HK\$'000
Current liabilities			
Trade and bills payables	6	168,306	183,884
Other payables and accruals		92,802	79,146
Current income tax liabilities		41,655	54,675
Borrowings		11,480	39,216
		<u>314,243</u>	<u>356,921</u>
Net current assets		<u>45,875</u>	<u>35,930</u>
Total assets less current liabilities		<u><u>139,765</u></u>	<u><u>166,774</u></u>
Financed by:			
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		159,058	159,058
Other reserves	7	21,471	29,022
Accumulated losses		(83,186)	(65,348)
		<u>97,343</u>	<u>122,732</u>
Minority interests		<u>7,412</u>	<u>9,032</u>
Total equity		<u>104,755</u>	<u>131,764</u>
LIABILITIES			
Non-current liabilities			
Borrowings		35,010	35,010
Total assets less current liabilities		<u><u>139,765</u></u>	<u><u>166,774</u></u>

The notes on pages 9 to 17 are an integral part of this condensed interim financial information.

Condensed Consolidated Interim Income Statement

		Unaudited			
		Three months ended		Six months ended	
		30th June, 2005		30th June, 2005	
		Three-Month Period		Six-Month Period	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations					
Sales	3	122,747	98,675	263,248	177,757
Cost of sales		(102,137)	(86,466)	(222,117)	(144,964)
Gross profit		20,610	12,209	41,131	32,793
Other gains - net		2,044	4,267	3,529	7,067
Selling, marketing costs and administrative expenses		(24,939)	(27,345)	(48,918)	(51,827)
Operating loss		(2,285)	(10,869)	(4,258)	(11,967)
Impairment of goodwill		(30,346)	—	(30,346)	—
Finance costs		(506)	(1,685)	(1,238)	(3,473)
Share of (losses)/profits of associates		—	(501)	51	(628)
Loss before income tax		(33,137)	(13,055)	(35,791)	(16,068)
Income tax	8	(198)	—	13,194	—
Loss from continuing operations		(33,335)	(13,055)	(22,597)	(16,068)
Discontinued operation	9	7,877	(4,024)	5,939	(7,110)
Loss for the period		(25,458)	(17,079)	(16,658)	(23,178)
Attributable to:					
Equity holders of the Company		(28,651)	(14,331)	(17,838)	(19,441)
Minority interests		3,193	(2,748)	1,180	(3,737)
		(25,458)	(17,079)	(16,658)	(23,178)

Unaudited				
		Three months ended		Six months ended
		30th June, 2005	Six-Month Period	30th June, 2005
Note	Three-Month Period HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss per Share for loss attributable to the equity holders of the Company during the period (HK cents)	10			
— basic		(4.67)	(2.33)	(2.91)
				(3.17)
— diluted		Not applicable	Not applicable	Not applicable
Dividends	11	—	—	—

The notes on pages 9 to 17 are an integral part of this condensed interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity

	Unaudited				
	Attributable to equity holders of the Company			Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000		
Balance as at 1st January, 2005	159,058	42,642	(27,860)	12,092	185,932
Fair value gains, net of tax:					
- available-for-sale financial assets	—	1,312	—	—	1,312
Currency translation differences	—	(2,566)	—	—	(2,566)
Net expense recognised directly in equity	—	(1,254)	—	—	(1,254)
Loss for the six months ended 30th June, 2005	—	—	(19,441)	(3,737)	(23,178)
Total recognised expenses for the six months ended 30th June, 2005	—	(1,254)	(19,441)	(3,737)	(24,432)
Balance as at 30th June, 2005	159,058	41,388	(47,301)	8,355	161,500
Balance as at 1st January, 2006	159,058	29,022	(65,348)	9,032	131,764
Fair value losses, net of tax:					
- available-for-sale financial assets	—	(7,567)	—	—	(7,567)
Currency translation differences	—	16	—	—	16
Net expense recognised directly in equity	—	(7,551)	—	—	(7,551)
Loss for the Six-Month Period	—	—	(17,838)	1,180	(16,658)
Minority interests - discontinued operation	—	—	—	(2,800)	(2,800)
Total recognised expenses for the Six-Month Period	—	(7,551)	(17,838)	(1,620)	(27,009)
Balance as at 30th June, 2006	159,058	21,471	(83,186)	7,412	104,755

The notes on pages 9 to 17 are an integral part of this condensed interim financial information.

Condensed Consolidated Interim Cash Flow Statement

	Unaudited	
	Six-Month Period HK\$'000	For the six months ended 30th June, 2005 HK\$'000
Cash flows from operating activities:		
- continuing operations	20,844	22,021
- discontinued operation	—	2,998
Net cash generated from operating activities	20,844	25,019
Cash flows from investing activities:		
- continuing operations	16,938	(2,563)
- discontinued operation	(6,916)	(586)
Net cash generated from/(used in) investing activities	10,022	(3,149)
Net cash (used in)/generated from financing activities - continuing operations	(27,736)	8,963
Net increase in cash and cash equivalents	3,130	30,833
Cash and cash equivalents at the beginning of the Six-Month Period/previous period	103,054	168,593
Cash and cash equivalents at the end of the Six-Month Period/previous period	106,184	199,426

The notes on pages 9 to 17 are an integral part of this condensed interim financial information.

The unaudited consolidated results of the Group for the Three-Month Period and Six-Month Period were reviewed by the audit committee of the Company.

Notes:

1. Basis of preparation

This condensed consolidated interim financial information for the Six-Month Period were prepared in accordance with HKAS 34, Interim Financial Reporting. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31st December, 2005.

2. Accounting policies

The accounting policies adopted were consistent with those of the annual financial statements for the year ended 31st December, 2005.

A discontinued operation was a component of an entity that was disposed of and represented a separate major line of business.

As described in the annual financial statements for the year ended 31st December, 2005, the following new standards, amendments to standards and interpretations were mandatory for financial year ended 31st December, 2006.

- **HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures (effective from 1st January, 2006).** This amendment would not be relevant to the Group as the Group did not have any defined benefit pension plan.
- **HKAS 21 (Amendment), Net Investment in a Foreign Operation (effective from 1st January, 2006).** This amendment is not relevant for the Group.
- **HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1st January, 2006).** This amendment would not be relevant to the operations of the Group.
- **HKAS 39 (Amendment), The Fair Value Option (effective from 1st January, 2006).** The Group believed that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss.
- **HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1st January, 2006).** This amendment was not relevant for the consolidated financial statement.
- **HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1st January, 2006).** It would not be relevant to the operations of the Group.

- **HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st January, 2006).** This interpretation was not relevant to the Group.
- **HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1st January, 2006).** HKFRS-Int 5 would not be relevant to the operations of the Group.
- **HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 1st December, 2005).** HK(IFRIC)-Int 6 would not be relevant to the operations of the Group.

The following new standards, amendments to standards and interpretations were issued but were not effective for the year ended 31st December, 2006 and were not early adopted:

- **HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1st March, 2006).** Management did not expect the interpretation to be relevant for the Group.
- **HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective from 1st May, 2006).** Management did not expect the interpretation to be relevant for the Group.
- **HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective from 1st June, 2006).** Management believed that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assessed if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9.
- **HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1st January, 2007).** The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures would be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group would apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning from 1st January, 2007.

3. Segment information

Primary reporting format - business segments

As at 30th June, 2006, the Group was organised on a worldwide basis into two main business segments:

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

Turnover consisted of sales from these two segments, which was approximately HK\$263,248,000 for the Six-Month Period (six months ended 30th June, 2005: approximately HK\$177,757,000).

Other operations of the Group mainly comprised the provision of rental services, which did not constitute a separately reportable segment. Rental income for the Six-Month Period was approximately HK\$951,000 (six months ended 30th June, 2005: approximately HK\$1,434,000).

The segment results for the Six-Month Period were as follows:

	Six-Month Period				Six months ended 30th June, 2005			
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK\$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK\$'000	Unallocated HK\$'000	Group HK\$'000	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK\$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK\$'000	Unallocated HK\$'000	Group HK\$'000
Sales	221,883	41,365	—	263,248	145,372	32,385	—	177,757
Operating profit / (loss)	9,875	(7,467)	(6,666)	(4,258)	(10,124)	(2,484)	641	(11,967)
Impairment of goodwill	—	(30,346)	—	(30,346)	—	—	—	—
Finance costs				(1,238)				(3,473)
Share of profits / (losses) of associates				51				(628)
Loss before income tax				(35,791)				(16,068)
Income tax				13,194				—
Loss from continuing operations				(22,597)				(16,068)
Discontinued operation				5,939				(7,110)
Loss for the period				(16,658)				(23,178)

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

	Six-Month Period				Six months ended 30th June, 2005			
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Unallocated	Group	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Unallocated	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	1,979	467	—	2,446	2,516	274	1,370	4,160
Amortisation	—	327	—	327	—	107	—	107

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

The segment assets and liabilities as at 30th June, 2006 and capital expenditure for the Six-Month Period were as follows:

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Unallocated	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets	345,380	55,998	50,874	452,252
Associates	1,756	—	—	1,756
Total assets	347,136	55,998	50,874	454,008
Liabilities	243,663	59,100	46,490	349,253
Capital expenditure	357	—	—	357

The segment assets and liabilities as at 31st December, 2005 and capital expenditure for the six months ended 30th June, 2005 were as follows:

	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK\$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK\$'000	Discontinued operation HK\$'000	Unallocated HK\$'000	Group HK\$'000
Assets	341,174	92,087	28,448	60,154	521,863
Associates	1,818	—	14	—	1,832
Total assets	<u>342,992</u>	<u>92,087</u>	<u>28,462</u>	<u>60,154</u>	<u>523,695</u>
Liabilities	274,471	58,856	20,678	37,926	391,931
Capital expenditure	828	1,782	539	—	3,149

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

Segment liabilities comprised operating liabilities. They mainly excluded borrowings.

Capital expenditure comprised additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

The segment of discontinued operation represented the segment of provision of digital image processing management solutions, which was disposed together with the sale of MIHL.

4. Depreciation, amortisation and cost of goods sold

During the Six-Month Period, depreciation of HK\$2,446,000 (six months ended 30th June, 2005: HK\$4,160,000) was charged in respect of the property, plant and equipment of the Group, and amortisation of HK\$327,000 (six months ended 30th June, 2005: HK\$107,000) was charged in respect of the research and development cost of the Group. The cost of goods sold for the Six-Month Period was HK\$192,195,000 (six months ended 30th June, 2005: HK\$111,598,000).

5. Trade and bills receivables

The credit terms granted to customers varied and were generally the result of negotiations between individual customers and the Group. As at 30th June, 2006, the ageing analysis of the trade and bills receivables, less provision for impairment of receivables, were as follows:

	As at 30th June, 2006 HK\$'000	As at 31st December, 2005 HK\$'000
Within three months	108,759	175,538
>Three months but ≤ six months	32,592	46,327
>Six months but ≤ twelve months	34,934	15,703
Over twelve months	16,425	4,343
	<hr/> 192,710 <hr/>	<hr/> 241,911 <hr/>

6. Trade and bills payables

As at 30th June, 2006, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) were as follows:

	As at 30th June, 2006 HK\$'000	As at 31st December, 2005 HK\$'000
Within three months	88,819	139,595
> Three months but ≤ six months	44,516	34,411
> Six months but ≤ twelve months	16,419	4,238
Over twelve months	18,552	5,640
	<hr/> 168,306 <hr/>	<hr/> 183,884 <hr/>

7. Other reserves

	Capital redemption reserve HK\$'000	Aavailable- for-sale investment reserve HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Statutory reserve HK\$'000	Total HK\$'000
Balance as at 1st January, 2006	702	(7,526)	35,549	248	49	29,022
Revaluation	—	(7,567)	—	—	—	(7,567)
Currency translation differences	—	—	—	16	—	16
Balance as at 30th June, 2006	<u>702</u>	<u>(15,093)</u>	<u>35,549</u>	<u>264</u>	<u>49</u>	<u>21,471</u>
Balance as at 1st January, 2005	702	5,315	35,549	3,034	49	44,649
Revaluation	—	1,312	—	—	—	1,312
Currency translation differences	—	—	—	(2,566)	—	(2,566)
Balance as at 30th June, 2005	<u>702</u>	<u>6,627</u>	<u>35,549</u>	<u>468</u>	<u>49</u>	<u>43,395</u>

8. Income tax

Hong Kong profits tax was provided at the rate of 17.5% (six month ended 30th June, 2005: 17.5%) on the estimated assessable profit for the Six-Month Period. Taxation on overseas profits was calculated on the estimated assessable profit for the Six-Month Period at the rates of taxation prevailing in the regions in which the Group operated.

9. Discontinued operation

The sale and purchase agreement entered into between Vodotel Holdings Limited (incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company), MAXPROFIT GLOBAL INC (a company incorporated in BVI with limited liability), the Company and Sun Ho relating to the sale of 61.05% of the issued share capital of MIHL, for an aggregate of HK\$10,378,500 was completed on 13th June, 2006.

10. Loss per Share

Basic

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

	Six-Month Period	Six months ended 30th June, 2005
Loss attributable to equity holders of the Company (HK\$'000)	(17,838)	(19,441)
Weighted average number of Shares in issue (thousands)	613,819	613,819
Basic loss per Share (HK cents)	(2.91)	(3.17)

Loss per Share attributable to equity holders of the Company arose from continuing and discontinued operation as follows:

	Six-Month Period	Six months ended 30th June, 2005
Loss per Share for loss from continuing operations attributable to the equity holders of the Company		
– basic (HK cents)	(3.88)	(2.01)
Earnings/(loss) per Share for profit/(loss) from discontinued operation attributable to the equity holders of the Company		
– basic (HK cents)	0.97	(1.16)

Diluted

No diluted loss per Share for the Six-Month Period was presented as there were no options, warrants or other convertible instruments in issue. No diluted loss per Share for the six months ended 30th June, 2005 was presented as the exercise of the outstanding share options of the Company would have an anti-dilutive effect.

11. Dividends

No dividend was paid during the Six-Month Period and the six months ended 30th June, 2005.

12. Related party transactions

During the Six-Month Period, 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:

	Six-Month Period HK\$'000	Six months ended 30th June, 2005 HK\$'000
Sale of goods	19	—
Occupancy costs	54	54

- (b) During the Six-Month Period, the Group paid occupancy costs of approximately HK\$360,000 to a Director, José Manuel dos Santos (six months ended 30th June, 2005: approximately HK\$394,000).
- (c) During the Six-Month Period, the Group paid occupancy costs of approximately HK\$324,000 to a director of a subsidiary (six months ended 30th June, 2005: approximately HK\$324,000).
- (d) Key management compensation amounted to HK\$4,162,000 (six months ended 30th June, 2005: HK\$4,162,000).
- (e) During the Six-Month Period, the Group received management fee of approximately HK\$716,000 from a company owned by a minority shareholder of a subsidiary (six months ended 30th June, 2005: approximately HK\$1,538,000).
- (f) During the Six-Month Period, a subsidiary paid management fee of approximately HK\$262,000 to a company owned by a director of various subsidiaries (six months ended 30th June, 2005: approximately HK\$332,000).
- (g) As at 30th June, 2006, other receivables, deposits and prepayments included loans to related parties of approximately HK\$1,951,000 (2005: HK\$Nil).
- (h) As at 30th June, 2006, short-term borrowings included loans from related parties of approximately HK\$1,669,000 (2005: HK\$Nil) and other payables and accruals included the corresponding interest expense payable of approximately HK\$39,000 (six months ended 30th June, 2005: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Mainland China operations

Since the Group took moves during 2004 to streamline its local operations in Mainland China and focus on the promotion of its self-developed solutions, the Group continued to receive good market responses. The OSS of TSTSH today includes two major modules, namely 1. the Customer Service and Network Management System module that provides telecommunications service providers a complete set of management solutions to manage multi-networks, multi-services and multi-hardware vendors, including network monitoring, service provisioning, service monitoring and service assurance, and 2. the Fault Management System module that provides rapid fault orientation, allowing telecommunications service providers to reduce fault period, increase customer service quality and enjoy stable technique support including multi-specialties fault integrated analysis judgement. During the Three-Month Period, TSTSH successfully secured a contract from Jiangsu China Telecom to install the Fault Management System module of the OSS and an expansion project from Chongqing China Telecom to install the Customer Service and Network Management System module, with two contracts totaling approximately HK\$6,800,000.

Taking advantage of the BizNavigator launched by China Telecom in 2005, during the Three-Month Period, the Group worked in collaboration with China Telecom to develop a resources management application that allows SMEs to enjoy value-added services in sales, inventory and production management by utilising the existing telecommunications networks and resources of China Telecom. Via our online resources management platform, customers of China Telecom could, via different media such as ADSL, Xiaolingtong, mobile or SMS, access real-time information of their business database. In addition, customers could update and download timely information, allowing SMEs to 1. closely monitor sales performance through sales achieved by individual salesperson; 2. manage inventory resources by flexibly reallocating stocking to avoid loss from ageing and obsolescent stocks; and 3. accurately manage production volume so as to gear production of popular products and control slow moving products. Trials with two SMEs in the Guangdong province are underway.

Macao operations

Macao remained the centre of attention. As the second world largest casino market in the world, with the casinos in the territory totaling US\$5,700,000,000 (approximately HK\$44,277,600,000) of gaming revenue during 2005, Macao continued to be supported by the massive investments from various gaming operators in the territory to build their flagships, add in gaming venues to increase market penetration and upgrade their existing gaming facilities. During the Three-Month Period, the Group continued to put its focus on the provision of surveillance systems and digital radio trunking systems for various gaming and hotel operators. The Group completed the installation and fine-tuning of the core surveillance systems and variation orders for three premises of a major gaming operator that provide twenty-four hour surveillance services to their gaming floors and hotel and entertainment premises.

In the arena of digital radio trunking systems, after the completion of the installation of the main digital radio trunking system of the territory for the Police and Judiciary Department of the Government of Macao, during the Three-Month Period, the Group commenced the work to install digital radio trunking systems for two gaming operators and successfully secured various contracts to supply the local digital radio trunking systems for different departments of the Government of Macao and in-house systems for various gaming and hotel operators. As at 30th June, 2006, orders on hand for the construction of surveillance systems and digital radio trunking systems amounted to approximately HK\$41,500,000.

International operations

During the Three-Month Period, operations of TCM continued to face challenges. STASA remained a close partner with different national TV stations in Spain. While IVR services at STASA continued to receive good responses as a result of the launch of a new Call&Win programme with a national TV station in Spain, generating approximately six hundred thousand calls, the cancellation of a tarot programme with another national TV station and the slow content market negatively affected the tarot and SMS services of STASA respectively. Nevertheless, STASA continued to develop new programmes, including the introduction of new SMS tone products at various TV channels, working in collaboration with a famous food brand to launch a new SMS-based Call&Win programme on their six million food packs, and working in collaboration with a national TV station to launch a new dating service that incorporates video, the first of its kind in Spain.

Turnover and Profitability

As a means to refocus the Group geographically and in its core businesses, that is the provision of network infrastructure, OSS and resources management applications for telecommunications service providers in Mainland China and surveillance and digital radio trunking systems for the Government of Macao, gaming and hotel operators in Macao, during the Three-Month Period, the Group disposed all its shareholding in MIHL for a consideration of HK\$10,378,500, retreated from the market in the Socialist Republic of Vietnam and evaluate the option to dispose the European subsidiaries.

Due to the disposal of MIHL, the operating results of the Group for the Three-Month Period and the Six-Month Period and its comparatives were adjusted accordingly to exclude the operating results of MIHL.

During the Six-Month Period, turnover of the Group reached HK\$263,248,000, representing an increase of 48.09% over the corresponding six months ended 30th June, 2005. The core businesses of the Group derived from Mainland China and Macao accounted for 84.29% of the total turnover of the Group, with turnover from the provision of value-added services from our European subsidiaries contributing 15.71% of the total turnover of the Group. Overall gross profit margin stood at 15.62%, effectuating gross profit of HK\$41,131,000 for the Group for the Six-Month Period.

During the Three-Month Period, the Group continued to show improvements in the operating results of its core businesses. Via the implementation of various cost cutting exercises, resulting in a more efficient group structure and lower selling and administrative expenses, the core businesses of the Group reported operating profit of HK\$9,875,000 as compared to operating loss of HK\$10,124,000 for the corresponding six months ended 30th June, 2005. Together with the reversal of income tax provision made in previous years and the gain from the disposal of MIHL less share of accumulated losses from 1st January, 2006 until date of disposal of HK\$5,939,000, the Group reported net profit of approximately HK\$22,141,000 for the Six-Month Period.

Nevertheless, affected by the operating results of TCM, which reported operating loss of HK\$7,467,000 for the Six-Month Period and the impairment of the goodwill of TCM of HK\$30,346,000, the latter of which was a prudent move made to better reflect, based on the best estimates of the Directors, the current fair value of TCM, the Group reported net loss of HK\$16,658,000 for the Six-Month Period, or net loss of HK\$17,838,000 attributable to its equity holders.

Capital Structure, Liquidity and Financial Resources

The Group continued to maintain a healthy capital structure with cash on hand amounted to HK\$106,184,000 (or HK\$145,084,000 should the yield-enhanced US\$5,000,000 (approximately HK\$38,597,000) financial bond was included). Current ratio improved slightly to 1.15 times.

Total borrowings amounted to HK\$46,490,000, translating to a gearing ratio (total borrowings/total equity) of 44.38%.

Employees' Information

As at 30th June, 2006, the Group had 309 employees spreading in Macao, Hong Kong, Mainland China and Europe. Employee costs totaled to HK\$25,430,000.

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

The Company adopted a share option scheme, whereby certain employees of the Group might be granted options to acquire the Shares.

The Group also provided various training programmes and technical 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 30th June, 2006, the Group did not have any significant capital commitments and significant investments.

Charges on Group Assets

As at 30th June, 2006, the Group did not have any charges on assets of the Group.

Contingent Liabilities

As at 30th June, 2006, the Group did not have any contingent liabilities.

Details of Material Acquisitions and Disposal

On 13th June, 2006, the Group disposed all its shareholding in MIHL, representing 61.05% of the issued share capital of MIHL, for an aggregate of HK\$10,378,500 (or approximately HK\$0.0318 per Share of MIHL). Save for the above, during the Three-Month Period, the Group had no material acquisitions or disposals.

Details of Future Plans for Material Investments or Capital Assets

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

Foreign Exchange Exposure

The Group mainly earned revenue and incurred cost in HK\$, Patacas (the lawful currency of Macao), US\$, € and Renminbi (the lawful currency of Mainland China). The Directors considered that the impact of foreign exchange exposure of the Group is minimal, except for €.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of the Shares during the Six-Month Period. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the Six-Month Period.

DISCLOSURE OF INTERESTS

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

As at 30th June, 2006, the relevant interests and short positions of the Directors or Chief Executive in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which would be required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he took or deemed to have under such provisions of the SFO) or required pursuant to section 352 of the SFO, to be entered in the register referred to therein or required, pursuant to rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

Aggregate long positions in the Shares

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

Notes:

- (a) As at 30th June, 2006, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL, a company wholly-owned by José Manuel dos Santos as trustee of the discretionary objects and which assets included a controlling stake of 47.8% of the issued share capital of the Company.
- (b) The personal interest of Yim Hong comprised 7,357,500 Shares. The aforesaid interest was held by Yim Hong as beneficial owner.
- (c) The personal interest of Kuan Kin Man comprised 12,262,500 Shares. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- (d) The personal interest of Monica Maria Nunes comprised 2,452,500 Shares. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- (e) The personal interest of Fung Kee Yue Roger comprised 210,000 Shares. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.

2. 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 30th June, 2006, the Company was notified of the following Substantial Shareholders' interests. These interests were in addition to those disclosed above in respect of the Directors and Chief Executive:

Aggregate long positions in the Shares

Name	Long position/ short position	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
ERL	Long position	Corporate interest (Note (a))	293,388,000	47.80%
LRL	Long position	Corporate interest (Note (a))	293,388,000	47.80%
Lei Hon Kin (Note (b))	Long position	Family interest	293,388,000	47.80%

Notes:

- (a) As at 30th June, 2006, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL.
- (b) Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

Save as disclosed above, the Directors were not aware of any person (other than Directors or Chief Executive) who, as at 30th June, 2006, had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under section 336 of the SFO, or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

As at 30th June, 2006, 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 of general meeting of the Group and which was (or were) able as a practical matter, to direct or influence the management of the Company, had any interest in a business, which competed or might compete with the business of the Group.

CORPORATE GOVERNANCE

The Company complied with the Code Provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules throughout the Six-Month Period, except that the Chairman of the Board did not attend the annual general meeting held in the Six-Month Period.

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

Directors' Securities Transactions

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

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

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

DEFINITIONS

“Associated Corporations”	corporations: <ol style="list-style-type: none">1. which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or2. (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
“Board”	the board of the Directors
“BVI”	the British Virgin Islands
“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
“Company”	Vodatel Networks Holdings Limited
“Director(s)”	the director(s) of the Company
“ERL”	Eve Resources Limited, a company incorporated in BVI with limited liability
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
“Gazette Newspapers”	those newspapers which are, from time to time, specified in the list of newspapers issued and published in the Gazette for the purposes of section 71A of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) by the Chief Secretary of the Government of Hong Kong
“GEM”	the Growth Enterprise Market operated by the Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time

“GEM Website”	the internet website operated by the Exchange for the purposes of GEM
“Group”	the Company and its subsidiaries
“HK cents”	Hong Kong cents, where 100 HK cents equal HK\$1
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standard
“HKFRS”	financial reporting standards approved by the Council of the HKICPA and includes all HKAS and interpretations of HKFRS approved by the HKICPA from time to time
“HKICPA”	the Hong Kong Institute of Certified Public Accountants established under the Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC (not applicable to The Stock Exchange of Hong Kong Limited, Hong Kong Accounting Standards and the Hong Kong Institute of Certified Public Accountants)
“Int”	Interpretation
“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
“Main Board”	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mainland China”	the PRC, other than the regions of Hong Kong, Macao and Taiwan

“MIHL”	MegalInfo Holdings Limited, incorporated in Bermuda with limited liability and Shares of MIHL are listed on GEM
“OSS”	Operation Support System
“PRC”	The People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Cap. 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
“Share(s) of MIHL”	share(s) of HK\$0.01 each in the capital of MIHL
“Six-Month Period”	the six months ended 30th June, 2006
“SMEs”	small and mid-size enterprises
“SMS”	short message services
“Spain”	The Kingdom of Spain
“STASA”	Servicios Telefónicos de Audiotex, Sociedad Anónima, incorporated in Spain with limited liability and an indirectly owned subsidiary of the Company
“Substantial Shareholder”	in relation to a company means a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
“TCM”	Teleconcept-Multimedia N.V., incorporated in the Kingdom of the Netherlands with limited liability and an indirectly owned subsidiary of the Company
“Three-Month Period”	the three months ended 30th June, 2006
“TSTSH”	泰思通軟件（上海）有限公司, incorporated in the PRC with limited liability and an indirectly owned subsidiary of the Company

“US\$”

United States Dollar, the lawful currency of the United States of America

“€”

Euro, the lawful currency of the European Union

By order of the Board

Yim Hong

Director

Macao, 14th August, 2006

Executive Directors

José Manuel dos Santos

Yim Hong

Kuan Kin Man

Monica Maria Nunes

Independent non-executive Directors

Chui Sai Cheong

Lo King Chiu Charles

Fung Kee Yue Roger