



**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**

**2007**

\* *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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*This report, 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 report 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**

### **HIGHLIGHTS**

- Revenue for the Three-Month Period and Six-Month Period amounted to HK\$76,091,000 and HK\$148,374,000 respectively
- With revenue for the Three-Month Period comprising of higher margin service income, gross profit margin improved to 19.5%
- Profit before tax of HK\$1,495,000 reported for the Three-Month Period
- Business in Macao remained vibrant with orders on hand exceeding HK\$70,000,000 as at 30th June, 2007
- Successfully secured a contract to install the resources management application at a major distributor of water products in Zhuhai
- The Group received approximately HK\$2,735,000 of dividend income from Timor Telecom S.A.
- The Board does 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

		As at 30th June, 2007 (Unaudited) HK\$'000	As at 31st December, 2006 (Audited) HK\$'000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Freehold land		2,020	2,020
Property, plant and equipment		1,807	3,056
Investments in associates		533	445
Available-for-sale financial assets		28,648	15,502
		<hr/> 33,008	<hr/> 21,023
<b>Current assets</b>			
Inventories		41,638	16,145
Income tax prepaid		—	936
Trade and bills receivables	5	102,453	171,961
Other receivables, deposits and prepayments		37,595	26,228
Loaned asset		38,748	38,748
Pledged time deposit		2,376	—
Cash and cash equivalents		71,955	107,928
		<hr/> 294,765	<hr/> 361,946
Non-current assets held for sale		2,147	22,856
		<hr/> 296,912	<hr/> 384,802

	Note	As at 30th June, 2007 (Unaudited) HK\$'000	As at 31st December, 2006 (Audited) HK\$'000
<b>Current liabilities</b>			
Trade and bills payables	6	90,442	165,151
Other payables and accruals		67,068	56,194
Current income tax liabilities		31,529	45,043
Borrowings		35,049	35,527
		<u>224,088</u>	<u>301,915</u>
Liabilities directly associated with non-current assets classified as held for sale		<u>10,688</u>	<u>64,390</u>
		<u>234,776</u>	<u>366,305</u>
<b>Net current assets</b>		<u>62,136</u>	<u>18,497</u>
<b>Total assets less current liabilities</b>		<u><u>95,144</u></u>	<u><u>39,520</u></u>
<b>Financed by:</b>			
<b>EQUITY</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital		61,382	159,058
Other reserves	7	134,888	24,348
Accumulated losses		(106,856)	(149,442)
		<u>89,414</u>	<u>33,964</u>
<b>Minority interest</b>		<u>5,730</u>	<u>5,556</u>
<b>Total equity</b>		<u><u>95,144</u></u>	<u><u>39,520</u></u>

The notes on pages 7 to 17 are an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		Three months ended		Six months ended
	Three-Month Period (Unaudited) HK\$'000	30th June, 2006 (Unaudited) HK\$'000 (restated)	Six-Month Period (Unaudited) HK\$'000	30th June, 2006 (Unaudited) HK\$'000 (restated)
Note				
<b>Continuing operations</b>				
Revenue	3	76,091	100,964	148,374
Cost of sales		(61,230)	(84,336)	(123,069)
		<u>14,861</u>	<u>16,628</u>	<u>25,305</u>
<b>Gross profit</b>		14,861	16,628	25,305
Selling, marketing costs and administrative expenses		(16,733)	(16,908)	(34,157)
Other gains - net		2,748	1,070	3,707
		<u>876</u>	<u>790</u>	<u>(5,145)</u>
<b>Operating profit/(loss)</b>		876	790	(5,145)
Finance income		575	557	1,047
Finance costs		—	(124)	(6)
		<u>575</u>	<u>433</u>	<u>1,041</u>
Finance income-net		575	433	1,041
Share of gains of an associate		44	—	88
		<u>44</u>	<u>—</u>	<u>88</u>
<b>Profit/(loss) before income tax</b>		1,495	1,223	(4,016)
Income tax (expense)/credit	8	(1,327)	(188)	13,289
		<u>168</u>	<u>1,035</u>	<u>9,273</u>
Profit for the period from continuing operations		168	1,035	9,273
<b>Discontinued operations</b>				
Profit/(loss) for the period from discontinued operations	9	3,268	(26,493)	33,487
		<u>3,268</u>	<u>(26,493)</u>	<u>33,487</u>
Profit/(loss) for the period		<u>3,436</u>	<u>(25,458)</u>	<u>42,760</u>
<b>Attributable to:</b>				
Equity holders of the Company		3,165	(28,651)	42,586
Minority interest		271	3,193	174
		<u>3,436</u>	<u>(25,458)</u>	<u>42,760</u>

		Three months ended 30th June, 2006 (Unaudited) HK\$'000	Three months ended 30th June, 2006 (Unaudited) HK\$'000 (restated)	Six months ended 30th June, 2006 (Unaudited) HK\$'000 (restated)
	Note	Three-Month Period (Unaudited) HK\$'000	Three-Month Period (Unaudited) HK\$'000 (restated)	Six-Month Period (Unaudited) HK\$'000 (restated)
<b>(Loss)/earnings per Share for</b>				
<b>(loss)/profit from continuing</b>				
<b>operations attributable to</b>				
<b>the equity holders of the</b>				
<b>Company during the period</b>				
<b>(expressed in HK cents)</b>				
— basic	10(a)	<u>(0.01)</u>	<u>(0.35)</u>	<u>1.48</u>
— diluted	10(b)	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<b>Earnings/(loss) per Share for</b>				
<b>profit/(loss) from</b>				
<b>discontinued operations</b>				
<b>attributable to the equity</b>				
<b>holders of the Company</b>				
<b>during the period</b>				
<b>(expressed in HK cents)</b>				
— basic	10(a)	<u>0.53</u>	<u>(4.32)</u>	<u>5.46</u>
— diluted	10(b)	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<b>Earnings/(loss) per Share for</b>				
<b>profit/(loss) attributable</b>				
<b>to the equity holders</b>				
<b>of the Company</b>				
<b>during the period</b>				
<b>(expressed in HK cents)</b>				
— basic	10(a)	<u>0.52</u>	<u>(4.67)</u>	<u>6.94</u>
— diluted	10(b)	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<b>Dividends</b>	11	<u>—</u>	<u>—</u>	<u>—</u>

The notes on pages 7 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 interest HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
<b>Balance as at 1st January, 2006</b>	159,058	29,022	(65,348 )	122,732	9,032	131,764
Fair value loss for available-for-sale financial assets	—	(7,567 )	—	(7,567 )	—	(7,567 )
Currency translation differences	—	16	—	16	—	16
Net expense recognised directly in equity	—	(7,551 )	—	(7,551 )	—	(7,551 )
(Loss)/profit for six months ended 30th June , 2006	—	—	(17,838 )	(17,838 )	1,180	(16,658 )
Minority interest - discontinued operations	—	—	—	—	(2,800 )	(2,800 )
<b>Total recognised income and expense for the six months ended 30th June , 2006</b>	—	(7,551 )	(17,838 )	(25,389 )	(1,620 )	(27,009 )
<b>Balance as at 30th June, 2006</b>	159,058	21,471	(83,186 )	97,343	7,412	104,755
<b>Balance as at 1st January, 2007</b>	159,058	24,348	(149,442 )	33,964	5,556	39,520
Fair value gains for available-for-sale financial assets	—	13,147	—	13,147	—	13,147
Currency translation differences	—	(283 )	—	(283 )	—	(283 )
Reduction of share premium credited to contributed surplus	(97,676 )	97,676	—	—	—	—
Net (expense)/income recognised directly in equity	(97,676 )	110,540	—	12,864	—	12,864
Profit for the Six-Month Period	—	—	42,586	42,586	174	42,760
<b>Total recognised income and expense for the Six-Month Period</b>	(97,676 )	110,540	42,586	55,450	174	55,624
<b>Balance as at 30th June, 2007</b>	61,382	134,888	(106,856 )	89,414	5,730	95,144

The notes on pages 7 to 17 are an integral part of this condensed interim financial information.



## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	<b>Six- Month Period (Unaudited) HK\$'000</b>	For the six months ended 30th June, 2006 (Unaudited) HK\$'000
Net cash (used in)/generated from operating activities	<b>(40,644)</b>	20,844
Net cash generated from investing activities	<b>7,394</b>	10,022
Net cash used in financing activities	<b>(2,854)</b>	(27,736)
<b>Net (decrease)/increase in cash and bank overdrafts</b>	<b>(36,104)</b>	3,130
Cash and bank overdrafts at beginning of the Six-Month Period/previous period	<b>108,059</b>	103,054
<b>Cash and bank overdrafts at end of the Six-Month Period/previous period</b>	<b>71,955</b>	106,184

The notes on pages 7 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, 2006.

## 2. Accounting policies

The accounting policies adopted were consistent with those of the annual financial statements for the year ended 31st December, 2006.

As described in the annual financial statements for the year ended 31st December, 2006, the following new standards, amendments to standards and interpretations were mandatory for financial year ended 31st December, 2007.

- **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. The Group applied HKFRS 7 and the amendment to HKAS 1, but the adoption had no impact on the condensed consolidated interim financial information of the Group;
- **HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies**. HK(IFRIC)-Int 7 provided guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identified the existence of hyperinflation in the economy of its Functional Currency, when the economy was not hyperinflationary in the prior period. As none of the entities in the Group had a currency of a hyperinflationary economy as its Functional Currency, HK(IFRIC)-Int 7 was not relevant to the operations of the Group;
- **HK(IFRIC)-Int 8, Scope of HKFRS 2**. HK(IFRIC)-Int 8 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 - to establish whether or not they fell within the scope of HKFRS 2. The Group applied HK(IFRIC)-Int 8 but the adoption had no impact on the condensed consolidated interim financial information of the Group;
- **HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives**. HK(IFRIC)-Int 9 required an entity to assess whether an embedded derivative was required to be separated from the host contract and accounted for as a derivative when the entity first became a party to the contract. Subsequent reassessment was prohibited unless there was a change in the terms of the contract that significantly modified the cash flows that otherwise was required under the contract, in which case reassessment if required. As none of the entities in the Group changed the terms of their contracts, HK(IFRIC)-Int 9 was not relevant to the operations of the Group; and
- **HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment**. HK(IFRIC)-Int 10 prohibited the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group applied HK(IFRIC)-Int 10, but the adoption had no impact on the condensed consolidated interim financial information of the Group.

### 3. Segment information

#### Primary reporting format - business segments

As at 30th June, 2007, the Group was organised into two main business segments:

- Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods; and
- Sale of mobile phones.

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

	Continuing operations				Discontinued operations
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK\$'000	Sale of mobile phones HK\$'000	Unallocated HK\$'000	Total HK\$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK\$'000
Revenue	120,290	28,084	—	148,374	12,868
Operating profit/(loss)	1,931	(607)	(6,469)	(5,145)	5,783
Gain on disposal of subsidiaries	—	—	—	—	27,704
Finance income				1,047	—
Finance costs				(6)	—
Finance income-net				1,041	—
Share of gains of an associate				88	—
(Loss)/profit before income tax				(4,016)	33,487
Income tax credit				13,289	—
Profit for the period				9,273	33,487

The segment results for the six months ended 30th June, 2006 were as follows:

	Continuing operations				Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Sale of mobile phones	Unallocated	Total	Provision of digital image processing management solutions	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Revenue</b>	193,146	28,737	—	221,883	25,381	41,365	66,746
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating profit/(loss)	9,345	(705)	(6,666)	1,974	(3,484)	(6,177)	(9,661)
	<u>          </u>	<u>          </u>	<u>          </u>		<u>          </u>	<u>          </u>	
Impairment of goodwill	—	—	—	—	—	(30,346)	(30,346)
Gain on disposal of subsidiaries	—	—	—	—	8,137	—	8,137
				<u>          </u>			<u>          </u>
Finance income				1,201			30
Finance costs				(269)			(969)
				<u>          </u>			<u>          </u>
Finance income/(costs) -net				932			(939)
Share of gains of associates				51			—
				<u>          </u>			<u>          </u>
<b>Profit/(loss) before income tax</b>				2,957			(32,809)
Income tax credit / (expense)				13,213			(19)
				<u>          </u>			<u>          </u>
<b>Profit/(loss) for the period</b>				16,170			(32,828)
				<u>          </u>			<u>          </u>

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

	Continuing operations			Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Sale of mobile phones	Total	Provision of digital image processing management solutions	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six-Month Period						
Depreciation	1,376	42	1,418	—	157	157
Amortisation	—	—	—	—	91	91
Six months ended 30th June, 2006						
Depreciation	1,864	115	1,979	308	467	775
Amortisation	—	—	—	—	327	327

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

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

Segment liabilities comprised operating liabilities. Unallocated liabilities comprised borrowings.

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

The segment assets and liabilities as at 30th June, 2007 and capital expenditure for the Six-Month Period were as follows:

	Continuing operations				Discontinued operations
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK\$'000	Sale of mobile phones HK\$'000	Unallocated HK\$'000	Total HK\$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK\$'000
Assets	254,843	5,001	67,396	327,240	2,147
Associates	533	—	—	533	—
<b>Total assets</b>	<u>255,376</u>	<u>5,001</u>	<u>67,396</u>	<u>327,773</u>	<u>2,147</u>
<b>Liabilities</b>	198,577	1,150	35,049	234,776	10,688
<b>Capital expenditure</b>	19	2	—	21	—

The segment assets and liabilities as at 31st December, 2006 and capital expenditure for the six months ended 30th June, 2006 were as follows:

	Continuing operations				Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Sale of mobile phones	Unallocated	Total	Provision of digital image processing management solutions	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets	362,577	4,426	15,521	382,524	—	22,856	22,856
Associates	445	—	—	445	—	—	—
<b>Total assets</b>	<b>363,022</b>	<b>4,426</b>	<b>15,521</b>	<b>382,969</b>	<b>—</b>	<b>22,856</b>	<b>22,856</b>
<b>Liabilities</b>	<b>297,084</b>	<b>1,158</b>	<b>3,673</b>	<b>301,915</b>	<b>—</b>	<b>64,390</b>	<b>64,390</b>
<b>Capital expenditure</b>	<b>357</b>	<b>—</b>	<b>—</b>	<b>357</b>	<b>57</b>	<b>—</b>	<b>57</b>

#### 4. Depreciation and cost of goods sold

During the Six-Month Period, depreciation of HK\$1,418,000 (six months ended 30th June, 2006: HK\$1,979,000) was charged in respect of the property, plant and equipment of the Group. The cost of goods sold for the Six-Month Period was HK\$108,050,000 (six months ended 30th June, 2006: HK\$192,195,000).

#### 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, 2007, the ageing analysis of the trade and bills receivables was as follows:

	As at 30th June, 2007 HK\$'000	As at 31st December, 2006 HK\$'000
Within three months	43,531	110,657
>Three months but ≤ six months	13,060	20,225
>Six months but ≤ twelve months	26,634	18,571
Over twelve months	92,224	100,274
	<u>175,449</u>	<u>249,727</u>

#### 6. Trade and bills payables

As at 30th June, 2007, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) was as follows:

	As at 30th June, 2007 HK\$'000	As at 31st December, 2006 HK\$'000
Within three months	42,559	100,766
> Three months but ≤ six months	14,885	1,899
> Six months but ≤ twelve months	2,422	20,292
Over twelve months	30,576	42,194
	<u>90,442</u>	<u>165,151</u>



## 7. Other reserves

	Contributed surplus	Capital redemption reserve	Aavailable- for-sale investments reserve	Merger reserve	Translation reserve	Statutory reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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
	<u>—</u>	<u>702</u>	<u>(7,526)</u>	<u>35,549</u>	<u>264</u>	<u>49</u>	<u>21,471</u>
Balance as at 30th June, 2006	—	702	(15,093)	35,549	264	49	21,471
	<u>—</u>	<u>702</u>	<u>(11,536)</u>	<u>35,549</u>	<u>(416)</u>	<u>49</u>	<u>24,348</u>
Balance as at 1st January, 2007	—	702	(11,536)	35,549	(416)	49	24,348
Revaluation	—	—	13,147	—	—	—	13,147
Currency translation differences	—	—	—	—	(283)	—	(283)
Reduction of share premium credited to contributed surplus	97,676	—	—	—	—	—	97,676
	<u>97,676</u>	<u>702</u>	<u>1,611</u>	<u>35,549</u>	<u>(699)</u>	<u>49</u>	<u>134,888</u>
Balance as at 30th June, 2007	97,676	702	1,611	35,549	(699)	49	134,888

## 8. Income tax (expense)/credit

Hong Kong profits tax was provided at the rate of 17.5% (six months ended 30th June, 2006: 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 operations

On 13th June, 2006, the Group disposed of its interests in AGTech Holdings Limited (a company incorporated in Bermuda with limited liability and whose shares are listed on GEM, formerly known as MegaInfo Holdings Limited), which was previously presented as a separate segment for provision of digital imaging processing management solutions.

In addition, the Group determined to dispose of TCM, which was previously presented as a separate segment for provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS on 24th November, 2006. During the Six-Month Period, the Group disposed of its interests in VFO and STASA and certain assets in TMBV. The assets and liabilities related to TCM as at 30th June, 2007 were presented as held for sale. It was expected that the liquidation of TCM will be completed in 2007.

## 10. 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 Six-Month Period.

	Six-Month Period	Six months ended 30th June, 2006
<b>Continuing operations</b>		
Profit attributable to equity holders of the Company (HK\$'000)	9,099	14,990
Weighted average number of Shares in issue (thousands)	<u>613,819</u>	<u>613,819</u>
Basic earnings per Share (HK cents)	<u>1.48</u>	<u>2.44</u>
<b>Discontinued operations</b>		
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	33,487	(32,828)
Weighted average number of Shares in issue (thousands)	<u>613,819</u>	<u>613,819</u>
Basic earnings/(loss) per Share (HK cents)	<u>5.46</u>	<u>(5.35)</u>
<b>Total</b>		
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	42,586	(17,838)
Weighted average number of Shares in issue (thousands)	<u>613,819</u>	<u>613,819</u>
Basic earnings/(loss) per Share (HK cents)	<u>6.94</u>	<u>(2.91)</u>

**(b) Diluted**

No diluted earnings per Share for the Six-Month Period was presented as there were no options, warrants or other convertible instruments in issue as at 30th June 2007. No diluted loss per Share for the six months ended 30th June, 2006 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 (six months ended 30th June, 2006: Nil).

The Directors did not recommend the payment of an interim dividend for the Six-Month Period.

**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:

	<b>Six-Month Period HK\$'000</b>	<b>Six months ended 30th June, 2006 HK\$'000</b>
Sale of goods	<b>8</b>	19
Occupancy costs	<b>54</b>	54
	<hr/> <hr/>	<hr/> <hr/>

- (b) During the Six-Month Period, the Group paid occupancy costs of approximately HK\$339,000 to a Director, José Manuel dos Santos (six months ended 30th June, 2006: approximately HK\$360,000).
- (c) Key management compensation amounted to HK\$4,290,000 (six months ended 30th June, 2006: HK\$4,162,000).
- (d) As at 30th June, 2007, other receivables, deposits and prepayments included in the non-current assets held for sale consisted of loans to related parties of approximately HK\$2,117,000 (31st December, 2006: HK\$2,053,000) which was already fully provided for.
- (e) As at 31st December, 2006, short-term borrowings included in the liabilities directly associated with non-current assets held for sale consisted of loan from a related party of approximately HK\$1,040,000 and other payables and accruals included the corresponding interest expense payable of approximately HK\$147,000.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF BUSINESS ACTIVITIES**

#### **Macao Operations**

Visa restrictions aimed at curbing visits of mainlanders to Macao have limited impact on the momentum of investment and development of the hospitality and gaming industries in the territory. The economy in Macao remained strong and vibrant, offering vast business opportunities for the Group in the provision of quality solutions and services in the areas of structured cabling, surveillance, networking and trunking radio. As a major local player and chosen by the Government of Macao and different hotel and gaming operators as their system provider, over the past two years, the Group has evolved as a trusted partner in our expertise domain, providing the Group with landmark projects and an excellent track record in handling both large-scale and complex infrastructure projects in Macao. Our position in Macao can also be demonstrated through current penetration into five out of the six gaming operators as provider of different solutions in their hotel and gaming premises.

During the Three-Month Period, in addition to completing the various variation orders for different gaming operators on their core systems, the Group has commenced the installation of a structured cabling system for a major gaming operator and completed a number of projects for the Government of Macao. Moreover, the Group has successfully passed the pre-qualification processes of two major hospitality and gaming sites, which have commenced development. The Group has also been awarded a number of major contracts by the Government of Macao, including the expansion of the automated passenger control system at one of the major borders, a support service contract for the upcoming Asian Indoor Games to be hosted in Macao during October, 2007 and a surveillance system for the police department. Total orders on hand as at 30th June, 2007 reached over HK\$70,000,000.

#### **Mainland China Operations**

In Mainland China, the Group continued to provide and support infrastructural needs of telecommunications service providers in selected provinces and municipalities, with projects completed for various telecommunications bureaus in the Guangdong Province during the Three-Month Period. The Group has also increased our participation in the higher margin service-provisioning arena, which is low turnover but high margin business. Today, the Group is providing support services to telecommunications bureaus in the provinces of Guangdong, Jiangxi, Jilin and Hunan, municipality in Chongqing and autonomous region in Guangxi.

With respect to the promotion of the resources management application that will allow small and mid-size enterprises to offer value-added services in sales, inventory and production management, the Group has successfully secured a contract from a major distributor of beverage in Zhuhai. Gradually building our reference sites, the Group aims to work in collaboration with different partners to promote our resources management application to major wholesalers in other provinces and municipalities.

With respect to TSTSH, during the Three-Month Period, TSTSH completed the final acceptance test for the fault management and customer management system at Chongqing China Telecom and won a contract to install a customer-based network management system at Jiangxi China Telecom. In addition, TSTSH continued to be in active negotiations with different telecommunications service providers in the provinces of Shaanxi, Gansu, Anhui, Jiangsu and Guangdong to sell and install the customer network management system, the web-based maintenance centre module and the government agency and enterprise customer service management module of the Operation Support System of TSTSH.

### **International Operations**

With the exit of our investments in TCM, subsequent to the sale of VFO and STASA and certain assets of TMBV, TCM commenced negotiations with various creditors of TCM, TMBV and SuperCom GmbH Audiotex Systeme (incorporated in Germany with limited liability and an indirectly owned subsidiary of the Company), with settlement with a number of creditors concluded during the Three-Month Period.

With respect to our 16% equity participation in Timor Telecom S.A., total dividend income of approximately HK\$2,735,000 was received by the Group during the Three-Month Period.

## **REVIEW OF OPERATING RESULTS**

### **Turnover and Profitability**

During the Three-Month Period, despite only HK\$76,091,000 of revenue registered as many projects still under installation and implementation, due to the composition of revenue comprising the higher margin service income, gross profit reached HK\$14,861,000 for the Three-Month Period, translating to gross profit margin of approximately 19.5%, an improvement of 5.1% and 3% over the previous three-month period and corresponding three-month period of last year respectively.

Despite the sale of mobile phones registering operating loss of HK\$607,000, higher gross profit and approximately HK\$2,735,000 of dividend income received from Timor Telecom S.A., the Group reported operating profit of HK\$876,000 for the Three-Month Period, as compared to loss of HK\$6,021,000 for the previous three-month period. With limited external borrowings and cash balance yielding HK\$575,000 of finance income, profit before income tax amounted to HK\$1,495,000.

Taking into account profit of HK\$3,268,000 as a result of various debt restructuring arrangements with creditors at TCM, and the reversal of income tax provision overprovided in earlier years and the gain from the disposal of VFO and STASA, and certain assets of TMBV, the Group reported net profit of HK\$3,436,000 and HK\$42,760,000 for the Three-Month Period and the Six-Month Period respectively.

### **Capital Structure, Liquidity and Financial Resources**

The Group continued to maintain a healthy capital structure with cash on hand amounted to HK\$74,331,000 (or HK\$113,417,000 should the yield-enhanced US\$5,000,000 (approximately HK\$39,086,000) financial bond was included). Current ratio improved to 1.3 times.

With net profit of HK\$42,760,000 for the Six-Month Period, equity base of the Group improved considerably from HK\$39,520,000 as at 31st December, 2006 to HK\$95,144,000 as at 30th June, 2007.

### **Employees' Information**

As at 30th June, 2007, the Group had 294 employees, of which 108, 17 and 169 employees were based in Macao, Hong Kong and Mainland China respectively. Employee costs totaled to HK\$17,576,000.

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

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

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, 2007, the Group did not have any significant capital commitments and significant investments.

## **Charges on Group Assets**

As at 30th June, 2007, time deposit of approximately US\$304,000 (approximately HK\$2,376,000) was charged to obtain banking facilities. Save as disclosed, the Group did not have other charges on assets of the Group.

## **Details of Material Acquisitions and Disposal**

During the Six-Month Period, the Group disposed its interests of 60% in VFO and STASA for a consideration satisfied by cash of €350,000 (approximately HK\$3,704,000), and certain assets in TMBV. Save as disclosed, the Group had no material acquisitions or disposals.

## **Details of Future Plans for Material Investments 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\$, Patacas (the lawful currency of Macao), US\$, € and Renminbi (the lawful currency of Mainland China). The Directors consider that the impact of foreign exchange exposure of the Group is minimal, except for €.

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS**

As at 30th June, 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 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 5.67 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**

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

#### *Notes:*

1. As at 30th June, 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 were discretionary objects and which assets included a controlling stake of 47.8% of the issued share capital of the Company.
2. The personal interest of Yim Hong comprised 7,357,500 Shares. The aforesaid interest was held by Yim Hong as beneficial owner.
3. The personal interest of Kuan Kin Man comprised 12,262,500 Shares. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
4. The personal interest of Monica Maria Nunes comprised 2,452,500 Shares. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
5. The personal interest of Fung Kee Yue Roger comprised 210,000 Shares. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.



## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES**

The register of Substantial Shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 30th June, 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 are in addition to those disclosed above in respect of the Directors and Chief Executive:

### **Aggregate long positions in the Shares**

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

*Notes:*

1. As at 30th June, 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.

## **COMPETING INTERESTS**

As at 30th June, 2007, none of the Directors, senior management, or any person who is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power of general meetings of the Group and who is (or are) able, as a practical matter, to direct or influence the management of the Company or Substantial Shareholders or any of their Associate, have any interest in a business, which competes or may 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.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company 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.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

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

## **DEFINITIONS**

"Associate"	has the same meaning ascribed thereto in the GEM Listing Rules
"Associated Corporations"	corporations: <ol style="list-style-type: none"><li>1. which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or</li><li>2. (not being subsidiaries of the Company) in which the Company has an interest in the shares of a class comprised in its share capital exceeding in nominal value one-fifth of the nominal value of the issued share of that class</li></ol>
"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
"Directors"	the directors of the Company

“ERL”	Eve Resources Limited, a company incorporated in BVI with limited liability
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
“Finland”	The Republic of Finland (not applicable to Voxel Finland Oy)
“Functional Currency”	the currency of 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 Companies Ordinance (Chapter 32 of the Laws of Hong Kong) 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
“Germany”	The Federal Republic of Germany
“Group”	the Company and its subsidiaries
“HK cents”	Hong Kong cents, where 100 HK cents equal HK\$1
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standard

“HKFRS”	standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong). They comprise 1. Hong Kong Financial Reporting Standards, 2. HKAS (formerly Statement of Standard Accounting Practice) and 3. Interpretations
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC (not applicable to The Stock Exchange of Hong Kong Limited, Hong Kong Accounting Standard, Hong Kong Financial Reporting 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
“the Netherlands”	The Kingdom of the Netherlands
“PRC”	The People’s Republic of China
“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
“Six-Month Period”	the six months ended 30th June, 2007
“SMS”	short message services
“Spain”	The Kingdom of Spain
“STASA”	Servicios Telefónicos de Audiotex, Sociedad Anónima, a company incorporated in Spain with limited liability
“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 Netherlands with limited liability and an indirectly owned subsidiary of the Company
“TMBV”	TeleConcept Multimedia B.V., incorporated in the Netherlands with limited liability and an indirectly owned subsidiary of the Company
“Three-Month Period”	the three months ended 30th June, 2007
“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

“VFO”

Voxtel Finland Oy, a company incorporated in Finland with limited liability

“€”

Euro, the lawful currency of Finland, Germany, the Netherlands and Spain

By order of the Board

**Yim Hong**

*Director*

Macao, 13th August, 2007

**Executive Directors**

José Manuel dos Santos

Yim Hong

Kuan Kin Man

Monica Maria Nunes

**Independent non-executive Directors**

Chui Sai Cheong

Lo King Chiu Charles

Fung Kee Yue Roger