



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

2005

* *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.

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.

The Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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 amounted to HK\$180,010,000 with net loss of HK\$19,441,000
- Business from the construction of data networking infrastructure in Mainland China continued to pose challenges to the Group
- TSTSH continued to secure steady contracts from telecommunications service providers in Mainland China.
- Business prospects from Macao remained strong with further contracts from the East Asian Games secured during the Six-Month Period
- VHL partnered with MIHL to provide a total and complementary solution in the bidding of projects from the Government of Macao and gaming operators
- STASA became the only company to provide Call&Win services to all the three major television stations in Spain
- TCM successfully completed the trial program for a major lottery company in the Netherlands
- 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 PROFIT AND LOSS ACCOUNT

		Three months ended 30th June, 2004	Six- Month Period	Six months ended 30th June, 2004
	Notes	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Turnover	2	99,449	70,651	180,010
Cost of sales		<u>(87,010)</u>	<u>(54,142)</u>	<u>(146,899)</u>
Gross profit		12,439	16,509	33,111
Other revenues		4,279	1,362	7,087
Selling and administrative expenses		<u>(31,611)</u>	<u>(15,938)</u>	<u>(59,269)</u>
Operating (loss)/profit		(14,893)	1,933	(19,071)
Deemed disposal gain from separate listing of MIHL	3	—	—	—
Finance costs		(1,685)	(799)	(3,479)
Share of (losses)/profits of associated companies		<u>(501)</u>	<u>(201)</u>	<u>(628)</u>
(Loss)/profit before taxation		(17,079)	933	(23,178)
Taxation	5	—	332	—
(Loss)/profit after taxation		(17,079)	1,265	(23,178)
Minority interests		2,748	3,086	3,737
(Loss)/profit attributable to Members		<u>(14,331)</u>	4,351	(19,441)
Dividends	6	—	—	6,413
(Loss)/earnings per Share (HK cents)	7			
— Basic		<u>(2.33)</u>	0.71	(3.17)
— Diluted		<u>Not applicable</u>	Not applicable	<u>Not applicable</u>

CONSOLIDATED BALANCE SHEET

	Notes	As at 30th June, 2005 (unaudited) HK\$'000	As at 31st December, 2004 HK\$'000
Non-current assets			
Intangible assets		59,738	67,898
Fixed assets		14,539	15,655
Investments in associated companies		1,012	1,630
Available-for-sale financial assets		71,867	72,450
Current assets			
Inventories		75,387	47,592
Taxation prepaid		80	80
Trade and bills receivables	8	141,891	178,536
Other receivables, deposits and prepayments		40,811	32,499
Bank balances and cash		199,426	168,830
		<u>457,595</u>	<u>427,537</u>
Current liabilities			
Trade and bills payables	9	116,857	115,397
Other payables and accruals		119,399	84,426
Taxation payable		52,108	53,490
Short-term loans, unsecured		126,840	132,198
		<u>415,204</u>	<u>385,511</u>
Net current assets		<u>42,391</u>	<u>42,026</u>
Total assets less current liabilities			
		<u>189,547</u>	<u>199,659</u>
Financed by:			
Share capital		61,382	61,382
Reserves	10	90,635	111,331
Members' funds		152,017	172,713
Minority interests		8,355	12,092
Long-term loan		29,175	14,854
		<u>189,547</u>	<u>199,659</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six- Month Period (unaudited) HK\$'000	Six months ended 30th June, 2004 (unaudited) HK\$'000
Total equity at the beginning of the Six-Month Period/previous period	172,712	347,588
Surplus on revaluation of available-for-sale financial assets	1,312	3,909
Group reorganisation	—	3,555
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	(2,566)	5
Net gains and losses not recognised in the consolidated profit and loss account	(1,254)	7,469
	171,458	355,057
(Loss)/profit for the Six-Month Period/previous period	(19,441)	17,532
Eighteen months ended 31st December, 2004 interim dividend paid	—	(3,069)
Total equity at the end of the Six-Month Period/previous period	152,017	369,520

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six- Month Period (unaudited) HK\$'000	Six months ended 30th June, 2004 (unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	25,019	(3,695)
Net cash (outflow)/inflow from investing activities	(3,149)	4,641
Net cash inflow from financing	8,963	104,503
Increase in cash and cash equivalents	30,833	105,449
Cash and cash equivalents at the beginning of the Six-Month Period/previous period	168,593	103,637
Cash and cash equivalents at the end of the Six-Month Period/previous period	199,426	209,086
Analysis of balances of cash and cash equivalents		
Bank balances and cash	199,426	209,086

NOTES:

1. Basis of preparation and accounting policies

These unaudited condensed consolidated accounts were prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

These unaudited condensed consolidated accounts should be read in conjunction with the accounts for the eighteen months ended 31st December, 2004.

The HKICPA undertook to converge by 1st January, 2005 all HKFRS with IFRS issued by the IASB. As a result, the HKICPA aligned HKFRS with the requirements of IFRS in all material respects as at 31st December, 2004.

In 2005, the Group adopted all HKFRS pertinent to its operations. The applicable HKFRS are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKAS-INT 15	Operating Leases — Incentives
HKAS-INT 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 34, 37, HKAS-INT 15 and 21 did not result in substantial changes to the accounting policies of the Group. In summary:

- HKAS 1 affected certain presentation in the consolidated balance sheet.
- HKAS 8, 16, 21 and 28 affected certain disclosure of the accounts.
- HKAS 2, 7, 10, 12, 14, 17, 18, 19, 23, 27, 33, 34, 37, HKAS INT-15 and 21 did not have any impact as the accounting policies of the Group already complied with the standards.
- HKAS 24 affected the identification of related parties and the disclosure of related party transactions.

The early adoption of HKFRS 2 would result in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the profit and loss account. Following the adoption of HKFRS 2, the fair value of share options at grant date was amortised over the relevant vesting periods to the profit and loss account.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in a change in the accounting policy for goodwill. Prior to this, goodwill was:

- amortised on a straight-line basis over a period of not exceeding ten years; and
- assessed for impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1st January, 2005;
- from the year ended 31st December, 2004 onwards, goodwill was tested annually for impairment, as well as when there are indications of impairment.

The adoption of HKAS 32 and HKAS 39 resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31st December, 2004, investments of the Group were classified into non-trading securities and trading securities, and were stated in the balance sheet at fair value.

In accordance with the provisions of HKAS 39, the investments were classified into available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables (which include bank deposits and cash and cash equivalents). The classification depends on the purpose for which the investments were held.

All relevant changes in the accounting policies have been made in accordance with the provisions of the respective standards, which retrospective application was not applicable to prior period comparatives other than HKAS 39 redesignating all investments into available-for-sale financial assets on 31st December, 2004.

The accounting policies and methods of computation used in the preparation of these accounts were consistent with those used in the accounts for the eighteen months ended 31st December, 2004.

2. **Segment information**

Business segments

The Group was organised into three main business segments:

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

There are no significant sales or other transactions between the business segments.

	Six-Month Period			Six months ended 30th June, 2004				
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Provision of digital image processing management solutions	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Group	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods	Provision of digital image processing management solutions	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	145,372	2,253	32,385	180,010	184,763	5,735	—	190,498
Segment results	(10,124)	(7,124)	(2,484)	(19,732)	20,417	(5,037)	—	15,380
Unallocated income				7,087				3,666
Unallocated cost				(6,426)				(15,241)
Operating (loss)/profit				(19,071)				3,805
Deemed disposal gain from separate listing of MIHL				—				10,769
Finance costs				(3,479)				(816)
Share of (losses)/profits of associated companies				(628)				36
(Loss)/profit before taxation				(23,178)				13,794
Taxation				—				2
(Loss)/profit after taxation				(23,178)				13,796
Minority interests				3,737				3,736
(Loss)/profit attributable to Members				(19,441)				17,532
	As at 30th June, 2005			As at 31st December, 2004				
Segment assets	460,992	35,810	32,537	529,339	373,725	19,124	112,826	505,675
Investments in associated companies				1,012				1,630
Unallocated assets				74,400				77,865
Total assets				604,751				585,170
Segment liabilities	221,744	27,908	58,183	307,835	172,133	4,879	70,814	247,826
Unallocated liabilities				144,899				164,631
Total liabilities				452,734				412,457
	Six-Month Period			Six months ended 30th June, 2004				
Capital expenditure	828	539	1,782	3,149	6,052	1,489	—	7,541
Depreciation	2,516	274	1,370	4,160	1,988	439	—	2,427
Amortisation	—	107	—	107	662	39	—	701

3. Deemed disposal gain for separate listing of MIHL

On 19th January, 2004, Shares of MIHL were listed and traded on GEM by the issue of new Shares of MIHL. As a result, the shareholding of the Company in MIHL had been diluted to 61.05%, which resulted in a gain of approximately HK\$10,769,000 arising from this deemed disposal.

4. Depreciation, amortisation and cost of goods sold

During the Six-Month Period, depreciation of HK\$4,160,000 (six months ended 30th June, 2004: HK\$2,427,000) was charged in respect of the fixed assets of the Group, and amortisation of HK\$107,000 (six months ended 30th June, 2004: HK\$701,000) 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\$111,598,000 (six months ended 30th June, 2004: HK\$141,280,000).

5. Taxation

Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profit for the Six-Month Period. Taxation on overseas profit had been 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.

6. Dividends

	Three months ended	Six months ended	
Three-Month Period	30th June, 2004	Six-Month Period	30th June, 2004
HK\$'000	HK\$'000	HK\$'000	HK\$'000
Special interim, paid for the eighteen months ended 31st December, 2004 (Note (a))	—	—	3,344
Interim, paid for 2005, of HK\$Nil (eighteen months ended 31st December, 2004: HK\$0.005) per Share (Note (b))	—	—	3,069
	—	—	6,413

Notes:

- (a) On 19th December, 2003, the Board approved the payment of a special interim dividend as part of the proposal for the separate listing of MIHL by way of a distribution in specie in respect of an aggregate of 13,375,000 Shares of MIHL to Members, where every 46 Shares were entitled to 1 Share of MIHL.
- (b) On 13th February, 2004, the Board approved an interim dividend of HK\$0.005 per Share to Members whose names appear in the Register of Members on 5th March, 2004.
- (c) The Directors do not recommend the payment of a dividend for the Six-Month Period.

7. Loss/(earnings) per Share

The calculation of basic loss per Share was based on the loss of the Group attributable to Members of HK\$19,441,000 (six months ended 30th June, 2004: profit of HK\$17,532,000) and the weighted average of 613,819,000 Shares (six months ended 30th June, 2004: 613,819,000 Shares) in issue during the Six-Month Period.

No diluted earnings per Shares for the Six-Month Period and the six months ended 30th June, 2004 was presented as the exercise of the outstanding share options of the Company would have an anti-dilutive effect.

8. Trade and bills receivables

The credit terms granted to customers varied and were generally the result of negotiations between individual customers and the Group. Customers were generally required to pay at various intervals over the life of the projects. As at 30th June, 2005, the ageing analysis of the trade and bills receivables were as follows:

	As at 30th June, 2005 HK\$'000	As at 31st December, 2004 HK\$'000
Within three months	73,376	143,579
Four to six months	22,866	20,544
Seven to twelve months	40,306	23,718
Over twelve months	90,222	77,398
	<hr/>	<hr/>
	226,770	265,239
Less: provision	(84,879)	(86,703)
	<hr/> <hr/>	<hr/> <hr/>
	141,891	178,536

9. Trade and bills payables

As at 30th June, 2005, the ageing analysis of the trade and bills payables were as follows:

	As at 30th June, 2005 HK\$'000	As at 31st December, 2004 HK\$'000
Within three months	79,195	76,012
Four to six months	10,321	13,645
Seven to twelve months	20,024	6,961
Over twelve months	7,317	18,779
	116,857	115,397

10. Reserves

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1st January, 2005	97,676	702	5,315	35,549	3,034	49	(30,995)	111,330
Surplus on revaluation of available-for-sale financial assets	—	—	1,312	—	—	—	—	1,312
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	—	—	—	—	(2,566)	—	—	(2,566)
Loss attributable to Members	—	—	—	—	—	—	(19,441)	(19,441)
As at 30th June, 2005	<u>97,676</u>	<u>702</u>	<u>6,627</u>	<u>35,549</u>	<u>468</u>	<u>49</u>	<u>(50,436)</u>	<u>90,635</u>

	Share premium	Capital redemption reserve	Investment revaluation reserve	Merger reserve	Exchange reserve	Statutory reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January, 2004	97,676	702	4,182	37,483	59	49	146,054	286,205
Surplus on revaluation of available-for-sale financial assets	—	—	3,909	—	—	—	—	3,909
Group reorganisation	—	—	—	3,555	—	—	—	3,555
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	—	—	—	—	5	—	—	5
Profit attributable to Members	—	—	—	—	—	—	17,532	17,532
Eighteen months ended 31st December, 2004								
interim dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
As at 30th June, 2004	<u>97,676</u>	<u>702</u>	<u>8,091</u>	<u>41,038</u>	<u>64</u>	<u>49</u>	<u>160,517</u>	<u>308,137</u>

11. Related party transactions

Significant related party transactions, which were carried out in the normal course of the business of the Group were as follows:

	Three-Month Period	Three months ended 30th June, 2004	Six-Month Period	Six months ended 30th June, 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of goods to a related company (Note (a))	—	—	—	15
Rental charges payable to a Director (Note (b))	195	192	390	768
Management fee receivable from a related company (Note (c))	769	—	1,538	—
Rental charges payable to a related company (Note (d))	185	—	370	—
Management fee payable to a related company (Note (e))	166	—	332	—
Sale of goods to a director of certain subsidiaries (Note (f))	—	—	2	—

Notes:

- (a) Various subsidiaries bought and sold goods to a company owned by José Manuel dos Santos, a Director.
- (b) (i) The Group was permitted to use its Macao office premises from a company owned by José Manuel dos Santos who waived the Group rental payment. The Group also was permitted to use another premise of José Manuel dos Santos, who waived the rental payment, as staff quarter commencing 1st September, 2004.
- (ii) In addition, the Group also leased the Hong Kong warehouse, another Macao office premises and its Guangzhou office premises from José Manuel dos Santos or a company owned by him at a monthly rental of HK\$30,000, HK\$9,000 and approximately RMB28,000 (approximately HK\$26,000) respectively.
- (c) The Group provided management services to a company owned by a minority shareholder of a subsidiary.
- (d) A subsidiary entered into a lease agreement with a company owned by a minority shareholder of a subsidiary to lease office space for a period of five years commencing 1st July, 2004 at a monthly rental of approximately €6,000 (approximately HK\$56,000). The lease was entered into on normal commercial terms.
- (e) A subsidiary received management services from a company owned by a director of various subsidiaries.
- (f) A director of certain subsidiaries bought goods from a subsidiary.
- (g) As at 30th June, 2005, the Group had unsecured advances to the following associated company:

	As at 30th June, 2005 HK\$'000	As at 31st December, 2004 HK\$'000
VCTHL (Note)	<u>3,164</u>	<u>3,164</u>

Note:

The advance to VCTHL was unsecured, interest-free with no fixed terms of repayment. The other shareholder of VCTHL, a third party, had also advanced to VCTHL an amount exceeding the proportion of its share of equity interest in VCTHL. The advance to VCTHL had been fully provided.

The Directors were of the opinion that the transactions as described in notes (a), (b)(ii), (c), (d), (e) and (f) above had been entered into and carried out in the ordinary and usual course of business of the Group on an arm's length basis, on normal commercial terms, were fair and reasonable and in the interest of the Members as a whole.

The Directors were of the opinion that the transaction as described in note (b)(i) above was on terms better than normal commercial terms to the Group and were fair and reasonable and in the interest of so far as the Members as a whole.

STATEMENT ON CORPORATE GOVERNANCE PRACTICES

The Company has fully 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.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted rules 5.48 to 5.67 of the GEM Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with rules 5.48 to 5.67 of the GEM Listing Rules throughout the Six-Month Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Details of material acquisitions and disposals

The Group did not have material acquisitions and disposals during the Six-Month Period, other than the exercise of HK\$1,200,000 convertible bonds previously issued by Mobile Telecom Network (Holdings) Limited (incorporated in Cayman Islands with limited liability and whose shares of US\$0.01 each in its capital are listed on GEM) into 15,384,615 new shares.

Capital commitments and significant investments

As at 30th June, 2005, the Group did not have any significant capital commitments and significant investments.

Employees' information

As at 30th June, 2005, the Group had 252 employees spreading in Macao, Hong Kong, Mainland China and Europe. Total remuneration of all employees amounted to HK\$27,112,000.

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

The Company and MIHL adopted different share option schemes, whereby certain employees of the Group may be granted options to acquire the Shares and Shares of MIHL.

The Group also provides various training programmes and technical orientation, both internal and external, for technical employees and marketing employees so as to improve their overall qualification and to continuously keep them abreast of industry and technological changes.

Charges on group assets

As at 30th June, 2005, the Group did not have any charges on assets of the Group.

Details of future plans for material investments or capital assets

The Group is now evaluating a collaboration arrangement with an internet content provider in Mainland China which will allow TCM to enter into the IVR and SMS business in Mainland China and to enhance cross-selling opportunities between Mainland China and Europe.

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in HK\$, Patacas (the lawful currency of Macao), US\$, € and RMB. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

Contingent liabilities

As at 30th June, 2005, the Group did not have any contingent liabilities.

Business review

As anticipated, operating environment for the construction of data network infrastructure in Mainland China remained stagnant, which continued to pose challenges and pressure on margins to the Group. Despite so, during the Three-Month Period, the Group has completed the contracts for Guangdong China Telecom, Zhejiang China Telecom and Shenzhen China Telecom and has also successfully secured contracts from other telecommunications service providers, including Beijing China Telecom, Shanghai China Telecom and Chongqing China Telecom.

During the Three-Month Period, the OSS developed by TSTSH continued to receive well responses and successfully being awarded projects from Xinjiang China Telecom and Guangdong China Telecom to expand the installed OSS of TSTSH to phase 2 and phase 3 respectively. Total value of these expansion projects amounted to approximately HK\$4,700,000.

Macao continued to offer numerous business opportunities to the Group, in particular with the Government of Macao and the gaming operators now investing heavily on infrastructure projects. During the Three-Month Period, with respect to the upcoming East Asian Games, in addition to securing a contract to build its networking infrastructure, the Group has also successfully secured other contracts, including a contract in the amount of approximately HK\$43,424,000 to build a data centre for the East Asian Games, and via MIHL, a contract in the amount of approximately HK\$19,600,000 for the provision of a hospitality system, system integration and project management. With the opening of the East Asian Games in October, 2005, the Group is also in the progress of completing the installation of the TETRA system for FSM, thus allowing this security system to be partially operational during the East Asian Games.

To capitalise on the opportunities from the gaming operators and hotel operators, VHL has partnered with MIHL in the bidding of various projects so as to provide a total and complementary solution to the operators. VHL will continue to provide infrastructure systems, such as structured cabling, networking and surveillance applications, whereas MIHL will focus on the provision of a series of extra-low voltage systems, including systems such as closed circuit television ("CCTV"), public automatic branch exchange ("PABX"), cabling, public address, access control, et cetera.

During the Three-Month Period, STASA moved into a new office, allowing cost savings to its monthly rental to be achieved. Leveraging on its technical competence and reliable services, STASA has won another project from one of the three largest television stations in Spain to roll out a nation wide Call&Win project to win five cars, generating over 400,000 minutes of traffic in one show over our platform. STASA is one of the most experienced companies in Spain in the provision of Call&Win services, in particular to television stations. Today, STASA is the only company that provides Call&Win services to all the three major television stations in Spain.

TCM has also successfully completed a six-month trial program with a major lottery company in the Netherlands with further discussions in progress to roll out future programs. In addition, TCM has launched Chinese contents in their website to strengthen its contents portfolio and to tap the Chinese communities in Europe.

During the Three-Month Period, to further leverage on the established market experience and presence in selected markets and strong technical capabilities, TCM has been actively exploring collaboration opportunities with content providers and applications developers in the Republic of Finland, the United Kingdom of Great Britain and Northern Ireland, the French Republic and the Netherlands for the development of new applications and services for the markets in the Federal Republic of Germany, the Netherlands and Spain. TCM has also confirmed its strategic move to enter into the IVR and SMS business in Mainland China to further expand its geographic footage and to enhance cross-selling opportunities. A collaboration arrangement with an internet content provider in Mainland China is currently in progress.

Turnover and profitability

During the Three-Month Period and Six-Month Period, turnover of the Group has been adversely affected by slower business from Mainland China in relation to the construction of data networking infrastructure. Nevertheless, with the consolidation of the results of TCM and Communications Appliances Ou Chung Limited (incorporated in Macao with limited liability and an indirect wholly-owned subsidiary of the Company), turnover for the Three-Month Period increased 40.76% as compared to the corresponding period ended 30th June, 2004 and turnover for the Six-Month Period represented a slight decrease of 5.51% as compared to the corresponding period. Though the Group has secured a handful of contracts in Macao from the Government of Macao and gaming operators, as most of these projects are currently in the construction phase, therefore, turnover from these projects have only been partially recognised during the Three-Month Period.

With increasing competition continued to put pressure on margins of data networking infrastructure projects in Mainland China and with trading of mobile phones carrying lower margins, gross margin for the Three-Month Period amounted to HK\$12,439,000 as compared to HK\$16,509,000, with gross margin for the Three-Month Period dropped by 24.65% as compared to corresponding period ended 30th June, 2004.

With the consolidation of the operating results of both MIHL and TCM, selling and administrative expenses increased considerably from HK\$33,784,000 to HK\$59,269,000 for the Six-Month Period. Together with turnover and profit from the projects in Macao only partially recognised, the Group reported a net loss of HK\$19,441,000 for the Six-Month Period.

Capital structure, liquidity and financial resources

Despite reporting a net loss during the Six-Month Period, the Group continued to maintain a healthy capital structure with cash on hand as at 30th June, 2005 amounted to HK\$199,426,000, this balance of which taken into account the first repayment of US\$3,750,000 (approximately HK\$29,175,000) made during March, 2005 against the US\$15,000,000 (approximately HK\$116,700,000) term loan. As at 30th June, 2005, although total borrowings totaled HK\$165,119,000, translating to a gearing ratio (total borrowings/Members' funds) of 108.6%, the Group had net cash (cash balances plus US\$5,000,000 (approximately HK\$38,900,000) yield enhanced bonds less short-term and long-term loans) of approximately HK\$73,200,000.

Inventory level increased from HK\$47,592,000 to HK\$75,387,000, the increment of which attributed primarily to equipment for the FSM project received during end of June, 2005. With respect to receivables, keeping tight control on collection remained.

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

As at 30th June, 2005, the relevant interests and short positions of the Directors or Chief Executive in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which will be required to be notified to the Company and the Exchange pursuant to divisions 7 and 8 of 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 5.68 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

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

Name of Director	Long position/ short position	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of share options) held (Note 8)	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Long position	Corporate interest/ founder of a discretionary trust (Note 1)	293,388,000	—	47.80%
	Long position	Personal (Note 2)	—	600,000	0.10%
	Short position	Corporate interest (Note 3)	—	13,384,000	2.18%
Yim Hong	Long position	Personal (Note 4)	7,357,500	900,000	1.35%
Kuan Kin Man	Long position	Personal (Note 5)	12,262,500	900,000	2.14%
Monica Maria Nunes	Long position	Personal (Note 6)	2,452,500	900,000	0.55%
Fung Kee Yue Roger	Long position	Personal (Note 7)	210,000	—	0.03%

Notes:

- (1) As at 30th June, 2005, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL, a company wholly-owned by José Manuel dos Santos as trustee of Santos' Family Trust.
- (2) The personal interest of José Manuel dos Santos comprised 600,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest was held by José Manuel dos Santos as beneficial owner.
- (3) Options were granted by the Company under a share option scheme. Since José Manuel dos Santos was interested in more than one-third of the issued share capital of the Company as at 30th June, 2005, he was deemed to have a short position in 13,384,000 underlying Shares.
- (4) The personal interest of Yim Hong comprised 7,357,500 Shares and 900,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest was held by Yim Hong as beneficial owner.
- (5) The personal interest of Kuan Kin Man comprised 12,262,500 Shares and 900,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- (6) The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 900,000 underlying Shares in respect of share options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- (7) The personal interest of Fung Kee Yue Roger comprised 210,000 Shares. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.
- (8) Each of the Directors held the same number of share options shown as at 1st January, 2005. The share options were granted on 30th June, 2003 and exercisable from 30th June, 2003 to 29th June, 2006 at HK\$0.42 per Share.

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

As at 30th June, 2005, the following persons (other than a Director or Chief Executive) had interests or short positions in the Shares or underlying Shares which were recorded in the register required to be kept under section 336 of the SFO:

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

Name	Long position/ short position	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of share options) held	Approximate % of the issued share capital of the Company
ERL	Long position	Corporate interest (Note 1)	293,388,000	—	47.80%
	Short position	Corporate interest (Note 2)	—	13,384,000	2.18%
LRL	Long position	Corporate interest (Note 1)	293,388,000	—	47.80%
	Short position	Corporate interest (Note 2)	—	13,384,000	2.18%
Lei Hon Kin (Note 3)	Long position	Family interest	293,988,000	—	47.89%
	Short position	Corporate interest	—	13,384,000	2.18%

Notes:

- (1) As at 30th June, 2005, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL.
- (2) Options were granted by the Company under a share option scheme. Since both ERL and LRL were interested in more than one-third of the issued share capital of the Company as at 30th June, 2005, they were deemed to have a short position in 13,384,000 underlying Shares.
- (3) Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

THE AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE BY CONTROLLING SHAREHOLDERS

The loan of a principal amount of US\$15,000,000 (approximately HK\$116,700,000) is to be repaid by VHL in four equal half-yearly instalments of US\$3,750,000 (approximately HK\$29,175,000), due in March and September, 2005 and March and September, 2006 respectively. The first repayment was paid in March, 2005 and so the outstanding principal amount as at 30th June, 2005 was US\$11,250,000 (approximately HK\$87,525,000).

The purpose of the loan is for general corporate purposes and for general working capital. VHL may only drawdown the loan between the period commencing on and including the date of the Agreement and ending on the date six months thereafter. VHL shall repay the loan drawn down by four consecutive equal semi-annual instalments commencing on the date eighteen months after the date of the Agreement. Notwithstanding the above, all outstanding amount under the Agreement shall be repaid on the date thirty-six months after the date of the Agreement. The interest rate is London interbank offered rate plus 1.35%.

Under the GEM Listing Rules, the Company is required to make a disclosure where the Company or any of its subsidiaries enters into other agreements that include a condition imposing specific performance obligations on any Controlling Shareholder and breach of such obligation will cause a default in respect of the loan that is significant to the operations of the Company. Under the Guarantee and the Agreement, the Company and VHL undertake with each of the Lenders that each of them shall procure that:

- (i) the trustee of Santos' Family Trust (being the Controlling Shareholder) shall at all times have as its trust assets, directly or indirectly, not less than 35% of each class of the issued voting share capital in the Company and that the service agreement between José Manuel dos Santos and the Company dated 10th February, 2004 is not amended or terminated without the prior written consent of the Agent; and
- (ii) the Santos' Family Trust shall not (whether by a single transaction or a number of related or unrelated transactions and whether at the same time or over a period of time) voluntarily dispose of more than 5% of its shareholdings in the Company without the prior written consent of the Lenders, the aggregate of whose participants exceeds 66 $\frac{2}{3}$ % of the loan or if no advances have been made or are outstanding the aggregate of whose commitment exceed 66 $\frac{2}{3}$ % of the undrawn balance of the commitment (such consent not to be unreasonably withheld or delayed).

In default of the above undertaking, the Agent may declare all obligations under the Agreement to be immediately due and payable.

This section is made pursuant to rule 17.20 of the GEM Listing Rules.

COMPETING INTERESTS

None of the Directors or any person who is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power of general meeting of the Group and which is (or are) able as a practical matter, to direct or influence the management of the Company had an interest in a business, which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed 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

“Agent”	Standard Chartered Bank (Hong Kong) Limited
“Agreement”	the loan facility agreement effective on 26th September, 2003 entered into between VHL and the Lenders referring to the US\$15,000,000 (approximately HK\$116,700,000) term loan facility
“Associated Corporations”	corporations: (a) which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or (b) (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 shares 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
“Controlling Shareholder”	any person who is or group of persons who are together entitled to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Code on Takeovers and Mergers approved by the Securities and Futures Commission, established under section 3 of the Securities and Futures Commission Ordinance (Cap. 24 of the Laws of Hong Kong) and continuing in existence under section 3 of the SFO, as amended from time to time, as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the Company or who is or are in a position to control the composition of a majority of the Board
“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
“FSM”	Direcção dos Serviços das Forças de Segurança (Public Security Force) of the Government of Macao

“Gazetted Newspapers”	those newspapers which are, from time to time, specified in the list of newspapers issued and published in the Gazette for the purposes of section 71A of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) as amended from time to time by the Chief Secretary of the Government of Hong Kong
“GEM”	the Growth Enterprise Market operated by the Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, made by the Exchange from time to time
“GEM Website”	the internet website operated by the Exchange for the purposes of GEM
“Group”	the Company and its subsidiaries
“Guarantee”	the deed of guarantee and indemnity executed by the Company in favour of the Lenders on 26th September, 2003 in respect of the obligations of VHL under the Agreement
“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 Hong Kong Accounting Standards, Hong Kong Institute of Certified Public Accountants, Standard Chartered Bank (Hong Kong) Limited and The Stock Exchange of Hong Kong Limited)
“IASB”	International Accounting Standards Board
“IFRS”	financial reporting standards and interpretations approved by the IASB, and includes all International Accounting Standards and interpretations issued under the former International Accounting Standards Committee from time to time
“IVR”	interactive voice response
“Lenders”	Banco Comercial de Macau S.A., CITIC Ka Wah Bank Limited, Industrial and Commercial Bank of China (Asia) Limited, HSH Nordbank AG, Hong Kong Branch and the Agent
“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
“Members”	holders of Shares
“MIHL”	MegalInfo Holdings Limited, incorporated in Bermuda with limited liability, an indirectly owned subsidiary of the Company and whose shares of HK\$0.01 each in its capital are listed on GEM

“OSS”	Operation Support System
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of Mainland China
“Santos’ Family Trust”	the existing trust whereby the family members of José Manuel dos Santos are the discretionary objects and which assets include a controlling stake of 47.80% of the issued share capital of the Company
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) as amended from time to time
“Shares of MIHL”	shares of HK\$0.01 each in the capital of MIHL
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Six-Month Period”	the six months ended 30th June, 2005
“SMS”	short message services
“Spain”	The Kingdom of Spain
“STASA”	Servicios Telefónicos de Audiotex SA, 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 Netherlands with limited liability and an indirectly owned subsidiary of the Company
“The Netherlands”	The Kingdom of the Netherlands
“Three-Month Period”	the three months ended 30th June, 2005

“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
“VCTHL”	Vodatel Crossland Technology Holdings Limited, incorporated in BVI with limited liability and an associate of the Company
“VHL”	Vodatel Holdings Limited, incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company
“€”	Euro, the lawful currency of the European Union

By order of the Board
José Manuel dos Santos
Chairman

Hong Kong, 12th August, 2005

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