



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

2010

* *for identification purpose only*

Characteristics of GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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.

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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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

BUSINESS AND FINANCIAL HIGHLIGHTS FOR THE THREE-MONTH PERIOD AND SIX-MONTH PERIOD

- Due to a rather sluggish start for 2010, turnover for the Three-Month Period and Six-Month Period amounted to HK\$37,435,000 and HK\$69,112,000 respectively, representing a drop of 16.90% and 22.48% respectively over the same corresponding periods
- Slack operating performance was offset by higher dividends from TTSA and gain on disposal from the sale of MTNHL Shares, resulting in profit before income tax of HK\$17,423,000 reported during the Six-Month Period
- Built up inventories to accommodate strong order book as at 30th June 2010 of over HK\$120,000,000
- Cash balance as at 30th June 2010 of HK\$122,203,000 (including liquidity notes and pledged deposits)
- Secured a major contract to build and install a large-scale and sophisticated surveillance system at newly built gaming and hospitality premises
- TSTSH secured a win to install its intelligent environment monitoring software at a prison in a city in the province of Jiangxi
- The newly developed food production environment intelligent monitoring system of TSTSH successfully sold to two food manufacturers in the province of Jiangxi
- Strong operating results from TTSA during the Six-Month Period with revenue reaching US\$26,000,000 (approximately HK\$202,063,000). Total number of mobile customers increased to 413,000 as at 30th June 2010
- The partnership with Telcabo won over US\$8,500,000 (approximately HK\$66,059,000) worth of contracts during the Six-Month Period
- Disposed approximately 2.76% of the total issued MTNHL Shares during the Three-Month Period, booking gain on disposal of HK\$5,652,000
- The Board does not recommend payment of interim dividend

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 BALANCE SHEET

		Unaudited As at 30th June 2010 HK\$'000	Audited As at 31st December 2009 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,071	759
Investment in an associate		509	661
Available-for-sale financial assets		27,323	19,820
		<hr/>	<hr/>
Total non-current assets		28,903	21,240
		<hr/>	<hr/>
Current assets			
Inventories		21,663	5,856
Current income tax prepaid		251	251
Trade receivables	6	50,325	84,801
Other receivables, deposits and prepayments		35,691	11,131
Loans and receivables		7,785	—
Pledged bank deposits		6,519	6,934
Cash and cash equivalents		107,899	95,670
		<hr/>	<hr/>
Total current assets		230,133	204,643
		<hr/>	<hr/>

		Unaudited As at 30th June 2010 HK\$'000	Audited As at 31st December 2009 HK\$'000
LIABILITIES			
Current liabilities			
Trade and bills payables	7	40,547	35,035
Other payables and accruals		47,242	42,358
Current income tax liabilities		5,321	5,822
		<u>93,110</u>	<u>83,215</u>
Net current assets		<u>137,023</u>	<u>121,428</u>
Total assets less current liabilities		<u><u>165,926</u></u>	<u><u>142,668</u></u>
Financed by:			
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		61,382	61,382
Other reserves	13	152,596	143,393
Accumulated losses			
- Proposed final dividends		—	3,069
- Other		(52,073)	(69,160)
		<u>161,905</u>	<u>138,684</u>
Non-controlling interests		<u>4,021</u>	<u>3,984</u>
Total equity		<u><u>165,926</u></u>	<u><u>142,668</u></u>

The notes on pages 8 to 15 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited			
		Three months ended		Six months ended	
		Three-Month Period	30th June 2009	Six-Month Period	30th June 2009
Note		HK\$'000	HK\$'000	HK\$'000	HK\$'000
	4	37,435	45,047	69,112	89,155
		(26,160)	(28,709)	(49,417)	(57,116)
		11,275	16,338	19,695	32,039
		(16,594)	(15,805)	(32,769)	(32,314)
		6,878	21,143	30,503	21,528
	8	1,559	21,676	17,429	21,253
		102	51	146	296
		(90)	81	(152)	(65)
		1,571	21,808	17,423	21,484
	9	(299)	(251)	(299)	8,310
		1,272	21,557	17,124	29,794
		1,045	22,358	17,087	30,919
		227	(801)	37	(1,125)
		1,272	21,557	17,124	29,794
		0.17	3.64	2.78	5.04
		—	—	—	—

The notes on pages 8 to 15 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six-Month Period HK\$'000	Six months ended 30th June 2009 HK\$'000
Profit for the period	17,124	29,794
Other comprehensive income		
Fair value gains on available-for-sale financial assets, net of tax	8,857	6,147
Currency translation differences	(470)	(11)
Other comprehensive income for the period, net of tax	8,387	6,136
Total comprehensive income for the period	25,511	35,930
Total comprehensive income for the period attributable to:		
- equity holders of the Company	25,474	37,055
- non-controlling interests	37	(1,125)
	25,511	35,930

The notes on pages 8 to 15 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited						
Attributable to equity holders of the Company						
Note	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance as at 1st January 2009	61,382	139,792	(100,264)	100,910	5,296	106,206
Total comprehensive income for the six months ended 30th June 2009	—	6,136	30,919	37,055	(1,125)	35,930
Balance as at 30th June 2009	<u>61,382</u>	<u>145,928</u>	<u>(69,345)</u>	<u>137,965</u>	<u>4,171</u>	<u>142,136</u>
Balance as at 1st January 2010	61,382	143,393	(66,091)	138,684	3,984	142,668
Total comprehensive income for the Six-Month Period	—	8,387	17,087	25,474	37	25,511
Transaction with owners in their capacity as owners						
Scheme: value of services	—	816	—	816	—	816
Dividends relating to 2009 paid in June 2010	10 —	—	(3,069)	(3,069)	—	(3,069)
Total transaction with owners	<u>—</u>	<u>9,203</u>	<u>14,018</u>	<u>23,221</u>	<u>37</u>	<u>23,258</u>
Balance as at 30th June 2010	<u><u>61,382</u></u>	<u><u>152,596</u></u>	<u><u>(52,073)</u></u>	<u><u>161,905</u></u>	<u><u>4,021</u></u>	<u><u>165,926</u></u>

The notes on pages 8 to 15 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six- Month Period HK\$'000	For the six months ended 30th June 2009 HK\$'000
Cash flows from operating activities - net	10,038	(4,299)
Cash flows from investing activities - net	4,845	16,018
Cash flows from financing activities - net	(2,654)	4,535
Net increase in cash and cash equivalents	12,229	16,254
Cash and cash equivalents at the beginning of the period	<u>95,670</u>	<u>89,961</u>
Cash and cash equivalents at end of the period	<u>107,899</u>	<u>106,215</u>

The notes on pages 8 to 15 form an integral part of this condensed interim financial information.

Notes to the condensed consolidated interim financial information:

1. General information

These condensed consolidated interim financial information are presented in HK\$, unless otherwise stated. This condensed consolidated interim financial information is approved for issue on 12th August 2010.

This condensed consolidated interim financial information was not audited. The unaudited consolidated results of the Group for the Three-Month Period and the Six-Month Period were reviewed by the audit committee of the Company.

2. 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 condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2009, which were prepared in accordance with HKFRS.

3. Accounting policies

Except as described below, the accounting policies applied were consistent with those of the annual financial statements for the year ended 31st December 2009, as described in those annual financial statements.

Taxes on income in the interim periods were accrued using the tax rate that would be applicable to expected total annual earnings.

Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group:

- Hong Kong (IFRIC) Interpretation 17 “Distributions of Non-cash Assets to Owners” is effective for annual periods beginning on or after 1st July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- “Additional exemptions for first-time adopters” (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1st January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.
- HKAS 39 (Amendment), “Eligible hedged items” is effective for annual periods on or after 1st July 2009. That is not currently applicable to the Group, as it has no hedging.
- HKFRS 2 (Amendment), “Group cash-settled share-based payment transaction” is effective for annual periods beginning on or after 1st January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.

- HKFRS 3 (Revised) “Business Combinations”, and consequential amendments to HKAS 27 “Consolidated and Separate Financial Statements”, HKAS 28 “Investments in Associates” and HKAS 31 “Interests in Joint Ventures”, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. This is not currently applicable to the Group, as it has no business combination after 1st January 2010.
- First improvements to HKFRS (2008) were issued in October 2008. The improvement related to HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” is effective for annual periods on or after 1st July 2009.
- Second improvements to HKFRS (2009) were issued in May 2009. All improvements are effective in the financial year of 2010.

4. Segment information

The chief operating decision-makers were identified as the executive Directors. They review the internal reporting of the Group in order to assess performance and allocate resources. Management determined the operating segments based on these reports.

The executive Directors consider the business from both a geographic and product perspective. From a product perspective, management assesses the performance of the segment of design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services and the segment of CNMS. The first segment was further evaluated on a geographic basis (Mainland China, and Hong Kong and Macao).

The executive Directors assess the performance of the operating segments based on a measure of EBITDA. This measurement basis excluded the effects of non-recurring expenditure from the operating segments such as gain on disposal of available-for-sale financial assets. Interest income and expenditure were not allocated to segments, as this type of activity is driven by the executive Directors.

Total assets exclude available-for-sale financial assets, which are managed on a central basis.

Sales between segments were carried out on terms equivalent to those that prevailed in arm's length transactions. The revenue from external parties reported to the executive Directors was measured in a manner consistent with that in the condensed consolidated income statement.

	Design, sale and implementation of network systems infrastructure; customer data automation, customisation and integration; and provision of technical support services			
	Mainland China HK\$'000	Hong Kong and Macao HK\$'000	CNMS HK\$'000	Total HK\$'000
Six-Month Period				
Revenue (from external customers)	19,253	47,931	1,928	69,112
Adjusted EBITDA	(1,507)	15,483	(2,136)	11,840
As at 30th June 2010				
Total assets (exclude available-for-sale financial assets)	38,830	180,478	12,405	231,713

A reconciliation of total adjusted EBITDA to total profit before income tax is provided as follows:

	Six-Month Period HK\$'000
Adjusted EBITDA for reportable segments	11,840
Depreciation	(215)
Finance income	146
Gain on disposal of available-for-sale financial assets	5,652
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Profit before income tax	17,423
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5. Property, plant and equipment

During the Six-Month Period, the Group acquired property, plant and equipment at a cost of HK\$466,000.

6. Trade receivables

Sales of the Group were on receipts in advance, letter of credit documents against payment and open terms credit. The credit terms granted to customers varied and were generally the result of negotiations between the individual customers and the Group. As at 30th June 2010 and 31st December 2009, the ageing analysis of the trade receivables was as follows:

	As at 30th June 2010 HK\$'000	As at 31st December 2009 HK\$'000
Within three months	22,546	73,804
>Three months but ≤ six months	4,981	3,545
>Six months but ≤ twelve months	10,036	4,759
Over twelve months	80,777	70,624
	<hr/>	<hr/>
Gross trade receivables	118,340	152,732
	<hr/> <hr/>	<hr/> <hr/>

7. Trade and bills payables

As at 30th June 2010 and 31st December 2009, the ageing analysis of the trade and bills payables (including amounts due to a related party of trading in nature) was as follows:

	As at 30th June 2010 HK\$'000	As at 31st December 2009 HK\$'000
Within three months	26,495	22,118
> Three months but ≤ six months	227	213
> Six months but ≤ twelve months	359	1,680
Over twelve months	13,466	11,024
	<hr/>	<hr/>
	40,547	35,035
	<hr/> <hr/>	<hr/> <hr/>

8. Operating profit

The following items were credited/(charged) to the operating profit during the period:

	Six-Month Period HK\$'000	Six months ended 30th June 2009 HK\$'000
Cost of goods sold	(37,753)	(40,599)
Depreciation	(215)	(228)
Dividend income on available-for-sale financial assets	23,617	19,723
Gain on disposal of available-for-sale financial assets	5,652	—
Reversal of impairment of trade receivables	—	2,119

9. Income tax (expense)/credit

Hong Kong and overseas profits tax was provided at the rate of 16.5% (six months ended 30th June 2009: 16.5%) and at the rates of taxation prevailing in the regions in which the Group operated respectively.

	Six-Month Period HK\$'000	Six months ended 30th June 2009 HK\$'000
Current income tax		
– Hong Kong profits tax	—	(90)
– Macao complementary profits tax	(249)	(13)
– Mainland China profits tax	(50)	(158)
– Over-provision in prior years	—	8,571
	<u> </u>	<u> </u>
Income tax (expense)/credit	<u>(299)</u>	<u>8,310</u>

10. Dividends

A dividend that related to the period to 31st December 2009 and that amounted to HK\$3,069,000 was paid in June 2010 (2009: Nil).

The Board does not recommend payment of interim dividend for the Six-Month Period (six months ended 30th June 2009: Nil).

11. Related-party transactions

The following transactions were carried out with related parties:

- (a) Sale of goods and services

	Six-Month Period HK\$'000
Sale of goods:	
- An entity controlled by key management personnel	15
Sale of services:	
- An associate	<u>12</u>

Goods were sold based on the price lists in force and terms that would be available to third parties. Goods were sold to an entity controlled by key management personnel on normal commercial terms and conditions. The entity controlled by key management personnel is a firm belonging to José Manuel dos Santos, a Director. Sales of services were negotiated with related parties at terms determined and agreed by both parties and carried out in the normal course of business.

	Six-Month Period HK\$'000
Purchase of goods	
- An entity controlled by key management personnel	<u>26</u>

Goods were bought from an entity controlled by key management personnel on normal commercial terms and conditions. The entity controlled by a key management personnel is a firm belonging to José Manuel dos Santos, a Director.

(b) Operating lease payments	Six-Month Period HK\$'000
- A Director	<u><u>373</u></u>

Operating lease payments were paid to a Director, José Manuel dos Santos, on normal commercial terms and conditions.

(c) Key management compensation

Key management compensation amounted to HK\$3,935,000 for the Six-Month Period.

(d) Balances as at 30th June 2010

	HK\$'000
Receivables from related parties:	
- An associate	24
- A director of a subsidiary	100
Payables to related parties:	
- An entity controlled by key management personnel	354
- Certain Directors	<u><u>432</u></u>

These balances were denominated in HK\$ or MOP, unsecured, interest free and repayable on demand, except HK\$296,000 to certain Directors which is payable in December 2010. There were no provisions held against receivables from related parties.

The payables bore no interest.

12. Seasonality

The business is not subject to seasonal fluctuations.

13. Other reserves

	Contributed surplus	Other reserve	Capital redemption reserve	Available-for-sale investments reserve	Merger reserve	Statutory reserve	Exchange reserve	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
As at 1st January 2009	97,676	2,289	702	346	35,549	49	3,181	139,792
Fair value gains on available-for-sale financial assets	—	—	—	6,147	—	—	—	6,147
Currency translation differences	—	—	—	—	—	—	(11)	(11)
As at 30th June 2009	<u>97,676</u>	<u>2,289</u>	<u>702</u>	<u>6,493</u>	<u>35,549</u>	<u>49</u>	<u>3,170</u>	<u>145,928</u>
As at 1st January 2010	97,676	2,289	702	3,940	35,549	49	3,188	143,393
Fair value gains on available-for-sale financial assets	—	—	—	8,857	—	—	—	8,857
Currency translation differences	—	—	—	—	—	—	(470)	(470)
Scheme: value of services	—	816	—	—	—	—	—	816
As at 30th June 2010	<u>97,676</u>	<u>3,105</u>	<u>702</u>	<u>12,797</u>	<u>35,549</u>	<u>49</u>	<u>2,718</u>	<u>152,596</u>

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF BUSINESS ACTIVITIES

Role as a provider of networks solutions

Although the Group experienced a rather sluggish start during 2010, in particular with the public sector in Macao as the enclave ventured into a new five-year term, the Group witnessed encouraging figures in the gaming industry, with gross revenue from games of fortunes in Macao reaching MOP85.8 billion (approximately HK\$83.3 billion) during the Six-Month Period as compared to gaming revenue of MOP119.4 billion (approximately HK\$115.9 billion) reported during the same corresponding period of last year. Strong revenue figures from the gaming sector drove the momentum of different gaming operators to initiate new development or expansion plans, as witnessed by increasing activities in the local territory, including the Galaxy Group actively building up its new flagship at the Cotai area and the Wynn Group announcing its application to the Government of Macao for land concession to lay a foothold in the Cotai area.

With heightened activities from the gaming sector, during the Three-Month Period, the Group successfully strengthened its order book with over HK\$120,000,000 as at 30th June 2010. Embraced within the order book was approximately HK\$75,000,000 worth of contracts that pertained to orders from different gaming and hotel operators in Macao, among which included a major contract to build and install a large-scale and sophisticated surveillance system that supports over 3,000 surveillance cameras at newly built gaming and hospitality premises and a contract to replace and upgrade the complete back-end networking system of the surveillance system of a gaming operator.

In Macao, MDL continues to be selected as a reliable and trusted partner when it comes to the supply and installation of security and backup systems for the Government of Macao. During the Three-Month Period, MDL successfully secured contracts that involved the installation of a central database backup solution for an educational institution and the implementation of a data security system for the identification bureau.

In Mainland China, during the Three-Month Period, the Group won over HK\$10,000,000 worth of contracts from different telecommunications service providers in the provinces of Hunan, Guangdong and Hebei to upgrade their broadband networks. In the same period, TSTSH won a contract to install its intelligent environment monitoring software at a prison in a city in the province of Jiangxi. The deployment of this module developed by TSTSH in environments that require the most stringent security strongly signifies the effectiveness of the alert and safety management features of the CNMS.

The CNMS that TSTSH was originally created to encompass features that allow telecommunications service providers to effectively and efficiently manage data traffic riding over the networks. Today, the CNMS of TSTSH has evolved with added functionalities that could be applied in the areas of network resources management, alert and fault management and intelligent environmental monitoring. During the Three-Month Period, to allow the CNMS of TSTSH to reach out to the food industry, TSTSH further developed its CNMS to cater for food production environment intelligent monitoring. This enhanced feature, via the utilisation of intelligent technology in networking, video and International Mobile Telecommunications – 2000 (3G), allows food manufacturers to closely monitor and detect variances in temperature, humidity, air quality and smoke during food production process that could possibly hamper food quality and safety. TSTSH is proud that this newly developed food production environment intelligent monitoring system has been sold to two food manufacturers in the province of Jiangxi and will be installed to monitor their food production chains.

Role as a provider of support services

The ability of the Group to provide quality implementation and support services to customers in Macao, Hong Kong and Mainland China continues to contribute to its success to create stable and recurring stream of income. During the Six-Month Period, the Group secured a total of over HK\$22,000,000 worth of contracts from the Government of Macao, gaming and hotel operators in Macao and telecommunications service providers in Hong Kong and Mainland China to provide after-sales maintenance support services to systems built and installed by the Group for them. With a strong team of system engineers and software developers, which constitutes over 70% of the workforce, the Group is confident that its ability to deliver consistent and high quality support services will continue to be well recognised by its customers, thus allowing the Group to further generate stable and healthy income from the provision of support services.

International investments

During the Six-Month Period, TTSA continued to deliver strong operating results with revenue and EBITDA growing to approximately US\$26,000,000 (approximately HK\$202,063,000) and US\$14,000,000 (approximately HK\$108,803,000) respectively, translating EBITDA margin to 55.30%. The strong operating result was attributable to number of mobile customers increasing from 351,000 as at 31st December 2009 to 413,000 as at 30th June 2010, which was achieved through expansion of network coverage and promotion of commercial offers. Although TTSA experienced strong customer growth, mobile minutes of use decreased to 43 minutes while mobile average revenue per use stood at approximately HK\$78. For the dividends against 2009 operating results of HK\$23,617,000 that the Group is entitled to receive, payments of HK\$5,939,000 and HK\$11,851,000 have been received during April and July 2010 respectively. Balance payment of HK\$5,827,000 is expected to be received during September 2010.

Although the procedures to the formation of the partnership, to be named Vodacabo S.A., with Telcabo and some reputable local Timorese in Timor-Leste is still underway, during the Three-Month Period, Vodacabo won US\$3,500,000 (approximately HK\$27,201,000) worth of contracts for the supply and installation of energy systems at Global System for Mobile communication (GSM) sites and for laying fibre-optic rings, bringing total works secured by this partnership during the Six-Month Period to over US\$8,500,000 (approximately HK\$66,059,000).

With the acquisition of 37.09% of the total issued MTNHL Shares by PetroAsian Energy Holdings Limited (a company incorporated in the Cayman Islands with limited liability and whose shares of HK\$0.01 each in its share capital are listed on the Main Board) completed, the Group disposed approximately 2.76% of the total issued MTNHL Shares during the Three-Month Period in the open market at an average price of HK\$0.50 per MTNHL Share, resulting in recognition of gain on disposal of HK\$5,652,000. As at the date of this announcement, the Group holds 80,325,696 MTNHL Shares.

REVIEW OF OPERATING RESULTS

With a rather sluggish start for 2010, turnover achieved by the Group during the Three-Month Period and Six-Month Period amounted to HK\$37,435,000 and HK\$69,112,000 respectively, representing a drop of 16.90% and 22.48% respectively over the same corresponding periods. During 2010, in the absence of the booking of the installation and service components of any major project, which resulted in a one-time hike in gross profit margin during 2009, gross profit margin for the Three-Month Period and Six-Month Period stood at 30.12% and 28.50% respectively.

During the six-month period of 2009, reversal of provision of trade receivables of HK\$2,119,000 was recognised. As a result, selling, marketing and administrative expenses for the Six-Month Period of HK\$32,769,000 marked an increase of 1.41% over the same corresponding period. Should such reversal of provision of trade receivables booked during the six months ended 30th June 2009 was excluded, selling, marketing and administrative expenses for that period would read HK\$34,433,000, representing a drop of 4.83% over the same corresponding period. This improvement was primarily the result of various cost cutting measures implemented during 2009.

Despite a slower start, slack operating performance was offset by higher dividends from TTSA of HK\$23,617,000 eligible to be received by the Group and booking of the gain on disposal of HK\$5,652,000 from the sale of MTNHL Shares. Consequently, the Group registered operating profit before tax of HK\$17,423,000 for the Six-Month Period. With reversal of tax over-provided in previous years exhausted during 2009, net profit for the Six-Month Period amounted to HK\$17,124,000 as compared to HK\$29,794,000 for the six months ended 30th June 2009.

With a strong order book as at 30th June 2010, the Group built up its level of inventories to HK\$21,663,000. With an on-going practice to avoid aged receivables, the Group reported a considerable drop of HK\$34,476,000 to its trade receivables to HK\$50,325,000, which together with the proceeds from the disposal of MTNHL Shares, cash balance (including liquidity notes and pledged deposits) of the Group reached HK\$122,203,000 as at 30th June 2010, representing an increase in cash balances of HK\$19,599,000 during the Six-Month Period. The hike in other receivables, deposits and prepayments as at 30th June 2010 was mainly attributable to the outstanding balance of HK\$17,678,000 of dividends to be received from TTSA, with HK\$11,851,000 of the balance received during July 2010.

The Group continued to enjoy a debt-free capital structure, which comfortably weathered the Group against turbulent conditions. During the Six-Month Period, equity base improved to HK\$165,925,000.

Employees' Information

As at 30th June 2010, the Group had 321 employees, of which 208, 8 and 105 employees were based in Mainland China, Hong Kong and Macao respectively. Employee costs totalled HK\$20,903,000.

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

The Company adopted the Scheme whereby all Directors and certain employees of the Group may be granted Options.

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

Capital Commitments and Significant Investments

As at 30th June 2010, the Group did not have any significant capital commitments and significant investments.

Charges on Group Assets

As at 30th June 2010, bank deposits of approximately HK\$6,519,000 was pledged for obtaining banking facilities and issuing performance bonds against certain projects. Save as disclosed, the Group did not have any charges on assets of the Group.

Details of Material Acquisitions and Disposal

During the Six-Month Period, the Group had no material acquisitions or disposals.

Details of Future Plans for Material Investment or Capital Assets

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

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in HK\$, MOP, US\$ and Renminbi (the lawful currency of Mainland China). The Directors consider that the impact of foreign exchange exposure on the Group is minimal in the Six-Month Period.

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

As at 30th June 2010, 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 SFO (including interests and short positions which he took or deemed to have taken under such provisions of SFO) or required pursuant to section 352 of SFO, to be entered in the register referred to therein or required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

Aggregate long positions in the Shares

Name of Director	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of Options held)	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Corporate interest/founder of a discretionary trust (note 1)	301,538,000	—	49.12%
	Personal (note 2)	—	1,600,000	0.26%
Yim Hong	Personal (note 3)	7,357,500	1,600,000	1.46%
Kuan Kin Man	Personal (note 4)	22,112,500	1,600,000	3.86%
Monica Maria Nunes	Personal (note 5)	2,452,500	1,600,000	0.66%
Fung Kee Yue Roger	Personal (note 6)	210,000	1,000,000	0.20%
Wong Tsu An Patrick	Personal (note 7)	—	500,000	0.08%
Tou Kam Fai	Personal (note 8)	—	500,000	0.08%

Notes:

1. As at 30th June 2010, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL, a company wholly-owned by José Manuel dos Santos as trustee of the existing trust whereby the family members of José Manuel dos Santos were the discretionary objects and which assets included a controlling stake of 49.12% of the issued share capital of the Company.
2. The personal interest of José Manuel dos Santos comprised 1,600,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by José Manuel dos Santos as beneficial owner.
3. The personal interest of Yim Hong comprised 7,357,500 Shares and 1,600,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Yim Hong as beneficial owner.
4. The personal interest of Kuan Kin Man comprised 22,112,500 Shares and 1,600,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
5. The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 1,600,000 underlying Shares in respect of Options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
6. The personal interest of Fung Kee Yue Roger comprised 210,000 Shares and 1,000,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.
7. The personal interest of Wong Tsu An Patrick comprised 500,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Wong Tsu An Patrick as beneficial owner.
8. The personal interest of Tou Kam Tai comprised 500,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Tou Kam Fai as beneficial owner.

ERL, José Manuel dos Santos and his nephews (who are Rui Nuno dos Santos, Luis Alberto dos Santos and Antonio dos Santos Robarts, all of whom hold interests in the Shares through Best Eastern Limited, Back Support Properties Limited and Yat Yi Properties Limited (companies incorporated in BVI with limited liability) respectively) have also informed the Company that they have been, and continue to be, acting in concert for the purposes of the Code on Takeovers and Mergers approved by the Securities and Futures Commission established under section 3 of the Securities and Futures Commission Ordinance and continuing in existence under section 3 of SFO. As at 30th June 2010, the parties acting in concert with ERL and José Manuel dos Santos held approximately 59.80% of all the Shares in issue.

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 SFO showed that as at 30th June 2010, the Company was notified of the following Substantial Shareholders' interests, being 5% or more of the issued share capital of the Company. These interests were in addition to those disclosed above in respect of the Directors and Chief Executive:

Aggregate long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
ERL	Corporate interest (note 1)	301,538,000	49.12%
LRL	Corporate interest (note 1)	301,538,000	49.12%
Lei Hon Kin (note 2)	Family interest	303,138,000	49.39%

Notes:

1. As at 30th June 2010, 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.

OPTIONS

Details of the Options outstanding as at 30th June 2010 which were granted under the Scheme are as follows:

	Number of Options				Subscription Price HK\$	Grant date	Exercisable from	Exercisable until
	Held as at 1st January 2010	Granted during the Six-Month Period	Lapsed during the Six-Month Period	Held as at 30th June 2010				
José Manuel dos Santos	800,000	—	—	800,000	0.32	11th July 2007	12th July 2007	11th July 2010
	—	800,000	—	800,000	0.38	14th June 2010	15th June 2010	14th June 2013
Yim Hong	800,000	—	—	800,000	0.32	11th July 2007	12th July 2007	11th July 2010
	—	800,000	—	800,000	0.38	14th June 2010	15th June 2010	14th June 2013
Kuan Kin Man	800,000	—	—	800,000	0.32	11th July 2007	12th July 2007	11th July 2010
	—	800,000	—	800,000	0.38	14th June 2010	15th June 2010	14th June 2013
Monica Maria Nunes	800,000	—	—	800,000	0.32	11th July 2007	12th July 2007	11th July 2010
	—	800,000	—	800,000	0.38	14th June 2010	15th June 2010	14th June 2013
Fung Kee Yue Roger	500,000	—	—	500,000	0.32	11th July 2007	12th July 2007	11th July 2010
	—	500,000	—	500,000	0.38	14th June 2010	15th June 2010	14th June 2013
Wong Tsu An Patrick	—	500,000	—	500,000	0.38	14th June 2010	15th June 2010	14th June 2013
Tou Kam Fai	—	500,000	—	500,000	0.38	14th June 2010	15th June 2010	14th June 2013
Continuous contract employees	14,262,000	—	(472,000)	13,790,000	0.32	11th July 2007	12th July 2007	11th July 2010
	—	17,712,000	—	17,712,000	0.38	14th June 2010	15th June 2010	14th June 2013
Consultants	190,000	—	—	190,000	0.32	11th July 2007	12th July 2007	11th July 2010
	—	136,000	—	136,000	0.38	14th June 2010	15th June 2010	14th June 2013
	<u>18,152,000</u>	<u>22,548,000</u>	<u>(472,000)</u>	<u>40,228,000</u>				

The fair value of the Options granted during the Six-Month Period using the binomial model was approximately HK\$0.11 per Option. The significant inputs into the model were Share price of HK\$0.38 at the grant date, subscription price shown above, volatility of 81.56%, dividend yield of 1.34% and on annual risk-free interest rate of 1.18%. The volatility measured is based on the three-year historical volatility of the price return of the Shares. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

COMPETING BUSINESS

As at 30th June 2010, none of the Directors, or any person who was (or group of persons who together were) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who was (or were) able, as a practical matter, to direct or influence the management of the Company or any of their respective Associates had any interest in a business, which competed or might compete with the business of the Group.

CORPORATE GOVERNANCE

The Company complied with the Code Provisions of the Code of Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, except that the Chairman of the Board did not attend the AGM 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 AGM was held.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted rules 5.48 to 5.67 of the GEM Listing Rules 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 purchased or sold any of the Shares during the Six-Month Period.

DEFINITIONS

“AGM”	annual general meeting
“Associate”	has the meaning ascribed thereto in the GEM Listing Rules
“Associated Corporation”	corporation: <ol style="list-style-type: none">1. which is a subsidiary or holding company of the Company or a subsidiary of the holding company of the Company; or2. (not being a subsidiary 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 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
“CNMS”	customer network management system
“Company”	Vodatel Networks Holdings Limited
“Director”	the director of the Company
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“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
“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
“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 PRC (not applicable to Hong Kong Accounting Standard, Hong Kong Exchanges and Clearing Limited, Hong Kong Financial Reporting Standards, Hong Kong (IFRIC) Interpretation, Hong Kong Institute of Certified Public Accountants and The Stock Exchange of Hong Kong Limited)
“LRL”	Lois Resources Limited, a company incorporated in BVI with limited liability
“Macao”	the Macao Special Administrative Region of PRC
“Mainland China”	PRC, other than the regions of Hong Kong, Macao and Taiwan
“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
“MDL”	Mega Datatech Limited, incorporated in Macao with limited liability and an indirect wholly-owned subsidiary of the Company
“MOP”	Patacas, the lawful currency of Macao
“MTNHL Share”	ordinary share of US\$0.01 each in the share capital of Mobile Telecom Network (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and MTNHL Shares are listed on GEM
“Option”	a right to subscribe for the Shares granted pursuant to the Scheme

“PRC”	the People’s Republic of China
“Scheme”	the share option scheme approved by the holders of the Shares at a special general meeting on 5th November 2002
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share”	ordinary share of HK\$0.10 each in the share capital of the Company
“Six-Month Period”	six months ended 30th June 2010
“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
“Three-Month Period”	three months ended 30th June 2010
“Timor-Leste”	the Democratic Republic of Timor-Leste
“Telcabo”	Telecomunicações e Electricidade, Lda., a company incorporated in the Portuguese Republic with limited liability
“TSTSH”	泰思通軟件（上海）有限公司，incorporated in PRC with limited liability and an indirectly owned subsidiary of the Company
“TTSA”	Timor Telecom, SA, a company incorporated in Timor-Leste with limited liability
“US\$”	United States Dollar, the lawful currency of the United States of America

By order of the Board
Yim Hong
Deputy Chairman

Macao, 12th August 2010

Executive Directors

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

Independent non-executive Directors

Fung Kee Yue Roger
Wong Tsu Au Patrick
Tou Kam Fai