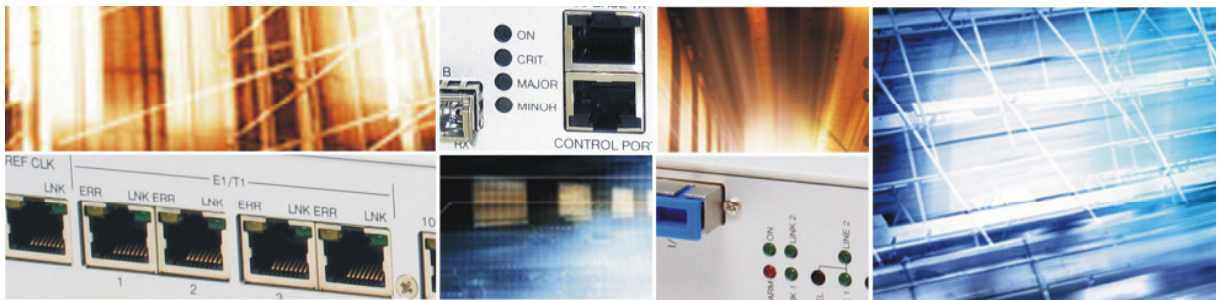




Semi- Annual Report 2006



Semi-Annual Report 2006

PANDATEL GROUP	01 Jan. 2006	01 Jan. 2005
(pursuant to IFRS)	to 30 June 2006	to 30 June 2005
Sales revenues (in €000)	4,464	5,942
Loss before income taxes (in €000)	-3,533	-6,934
Net loss for the period (in €000)	-3,345	-6,865
Earnings per share, diluted (in €)	-0.42	-0.87
Employees*	53	120
*average number according to entry date		

Business Development

In the first half 2006, PANDATEL began to concentrate on its core competencies, new product lines as well as relocation of corporate headquarters to Hanover.

1. Core competencies comprise for instance embracing the growing Ethernet Access Market and positioning Pandatel as an Ethernet Solution Provider and not as a manufacturer of datacom & telecom equipment.
2. Secondly, PANDATEL puts huge efforts on streamlining its operations, such as consolidating products and product platforms by deleting most of its old products, which require huge component sourcing efforts.
3. By 30 June 2006, the company managed to consolidate its German locations in Hanover to cut operating costs. At the same time, production was successfully moved to China and the Shanghai plant took over the entire manufacturing process by the end of June 2006.

Another goal is to push into the US market. For a start, PANDATEL extended its American sales team to pursue this objective and achieve first results within the next months. All these measures are essential pillars in PANDATEL AG's reorientation, which of course influence PANDATEL AG's business development.

In the first half 2006, PANDATEL booked revenues of €4,464 compared to €5,942 in the first half 2005, i.e. a decrease of 25%. EBIT amounted to €-3.4m against €-7.1m 2006, which is a difference of 52%. Considering that the number of employees was reduced from 120 to 53 based on half-year comparison and that production was relocated from Hamburg to Shanghai, the decrease in revenues turned out to be far less severe than expected.

If we look at PANDATEL today, three characteristics are evident:

1. New Management
2. Restructuring and new production structure including new production facilities in Shanghai
3. Clear focus on core products and core competencies

New Management

Management Board and Supervisory Board

By the end of April 2006, Thomas Becker left the Management Board, as announced earlier in the year, to take up new responsibilities. Mr. Becker was decisively involved in finding a suitable strategic investor for PANDATEL. After finishing his task and accompanying the new CEO during her initial stage, he decided to deal with new challenges.

On its extraordinary shareholders' meeting on 27 March 2006, a new supervisory board was elected consisting of Dr. Axel Pfeifer (chairman), Alex Fang (vice chairman) and Dr. Jozef Straus. Dr. Axel Pfeifer is a renowned lawyer in the field of mergers and acquisitions. He intends to contribute his experience into the forming of new PANDATEL. Alex Fang, investment banker from Hong Kong, is familiar with business in China and the US. This enables him to combine both of his cultural backgrounds and thus to help PANDATEL cope with the changes. Dr. Jozef Straus has vast experience in the area of business management as well as optical networking and would like to support PANDATEL in conquering new market shares.

In addition, the company succeeded in finding a settlement with former management members of PANDATEL. This settlement, however, had no effect on the costs or the result.

As announced in a press release in late 2005, Andreas Hennig was appointed Vice President R&D and Munther Jadallah was appointed Vice President Sales at PANDATEL.

Restructuring and Merger Plan with Dowlake Microsystems

Until the end of June, the company relocated its headquarters from Hamburg to Hanover, and facilities in Eisingen were shut down by 31 March 2006. Concurrently, production was relocated to Shanghai. By this, Dr. Dan D. Yang, new CEO since November 2005, intends to save about 80 percent compared to previous year's costs and expenses. In addition, being a solution provider allows streamlining the product range and abandoning small volume production, which was hardly cost-effective. Additional momentum is expected from new customers based in Dowlake's domestic North American market. Dan D. Yang expects synergy effects after the merger for both companies from merging production facilities, mutually complementary product lines and concentration on identical customer groups.

Clear focus on core products and core competencies

In the course of its new corporate strategy, the Ethernet solution specialist Pandatel merges its several thousand product versions into a maximum of 40 platforms. The company will continue to support and develop core technologies. In addition, the IP products of Dowlake, to be merged into Pandatel, expand the compatible product groups. The new concentration on universal and compatible product platforms constitutes the core piece of the company guidelines from its new CEO Dan Yang.

PANDATEL's newly focused product groups include:

- 1) COP series TDM over IP solutions: It allows service providers to save investment cost by keeping traditional phone and data equipment, while taking advantage of low cost Ethernet network. COP series of products fit into Pandatel's universal access platform MACS
- 2) ETC series Ethernet for Last Mile solutions: While more and more users go after broadband access, service providers use such products to deliver Ethernet services. ETC series offer sophisticated Ethernet service delivery by combining transport and switching into one product. ETC series of products fit into Pandatel's universal access platform MACS.
- 3) Modems, Converters, Multiplexers: This category of products provides protocol, or media conversion, or signal multiplexing for access network. Most products from this category fit into Pandatel's universal access platform MACS.

- 4) Ethernet over PDH/Sonet/SDH: This category provides solutions to allow user's Internet Protocol based local area network to be connected to the existing public network backbone. It consists of mostly stand-alone solutions in small form factor. Dowlake 2.5 Gigabit products are added to compliment Pandatel 155 Megabit products.
- 5) YUMIX series optical transport products: Originally from Lightmaze Solutions, YUMIX products are not streamlined to target especially short distance transport using WDM technology. YUMIX 100 and YUMIX MS1025 are developed by Dowlake as cost-effective complimentary products offering "pizza-box" small chassis solutions.

Recently, Pandatel announced new additions to COP Series and ETC Series. COP-RS is a solution to extend multi-protocol serial interfaces over packet-switched network. ETC-B26 combines Ethernet connectivity and service delivery using WDM technology, providing a simpler and lower CAPEX/OPEX solution than standard passive optical network equipment.

Events

Pandatel presented itself and its new products on the CeBIT in Hanover in March 2006 and on the GlobalComm in Chicago in June 2006. In this context, the company succeeded in opening many interesting business contacts.

On March 27, 2006, the company held an extraordinary shareholders' meeting to approve the restructuring of PANDATEL AG initiated by its new CEO Dr. Dan D. Yang. All items were passed with more than 95%. However, individual lawsuits are pending with the Hamburg court. As soon as they are settled the resolutions taken will be entered into the Commercial Register as demanded by BaFin.

The company's Press Conference in June 2006, for the first time presenting Dan Yang in Germany, promised feedbacks from journalists of various areas.

Partners

The most important partner for PANDATEL is now Dowlake because both companies complement each other in many ways.

Operational Developments

Procurement and production has been outsourced to Dowslake. In this context, surface mount soldering equipment was sold by the end of June 2006 and 104 types of circuit boards were introduced and transferred to Dowslake Shanghai. Obsolete inventory was disposed of or sold where possible. In this way, the inventory of finished products was decreased significantly. Quality management is one of the major areas Pandatel needs to work on – past quality management worked just to get ISO approval and many processes are missing – for example customer service. RMAs accumulated in house for years and nobody was responsible to track repair service. New Pandatel operations is in charge to set it up, with the goal to achieve the same turn-around time as Dowslake – two weeks.

R&D and Marketing: We are positioning the company as a specialist of Ethernet technology, with broad product lines covering from optical to last mile. R&D is now focusing on developing series of products, instead of one product for each function. Our strategy is: We can not be good at everything, but we must be good at something.

PANDATEL's sales structure will undergo substantial changes too. Customer support will be based on key account service and reseller program management instead of ASMs, including a cut-back in the number of sales people from 17 to 7.

Sales and Results

Again, EMEA turned out to be the strongest region with sales of €3.149m in H1/2006 against sales of €3.890m in H1/2005 a reduction of 19%. Mainly, this is due to EMEA being traditionally the best markets for

PANDATEL products. For this reason, we will continue to concentrate on sales in France, Germany, the UK with special emphasis on Italy and Scandinavia. Asia Pacific is second with a turnover of €1.213m in H1/2006 compared to €1.773m for H1/2005, i.e. a difference of -32%. In Asia on the other hand, we will concentrate on a limited number of countries where we have confidence in customer payment. The Americas booked sales of €0.102m in H1/2006 after €0.279m in H1/2005 a dwindling of 63% showing that in the US, major investments are necessary to re-establish PANDATEL presence.

Market development/Sales by region

France and Great Britain held their leading positions with sales of €1.070m and €0.665m respectively, i.e. a minus of 1.83% or 31.23%. Weakest countries were Norway and the US with sales of €0.022m and €0.021m.

New market is Gigabit Ethernet for access. This is an area where few companies will be better than Pandatel, because of combined low data rate and high data rate expertise by Pandatel & Dowslake Whereas Dowslake concentrates on high speed, and Pandatel focuses on lower speed.

Sales by business area

The Access Multiplexer segment achieved sales of around € 1.8m as compared to € 2.1m in the previous year, which corresponds to a decline of 15%. Connectivity Products booked sales of € 2.5m against nearly € 3.0m for the same half year period of 2005 or a decline of 15%. The Optical Systems business achieved sales of € 0.2m (H1/2006), compared to € 0.9m (H1/2005), which is a decrease of 81%.

Results by Region*

	Reporting period	External sales in		Internal sales		EBT	
		€000	in %	in €000	in %	in €000	in %
EMEA	30 June 2006	3,149	70.5	1	1.0	-3,409	96.5
	30 June 2005	3,890	65.5	2,463	100.0	-6,810	98.0
The Americas	30 June 2006	102	2.3	-4	-3.5	0	0
	30 June 2005	279	4.7	0	0.0	-131	1.9
Asia Pacific	30 June 2006	1,213	27.2	114	102.7	-124	3.5
	30 June 2005	1,773	29.8	0	0.0	6	0.1
Group	30 June 2006	4,464	100.0	111	100	-3,533	100.0
	30 June 2005	5,942	100.0	2,463	100.0	-6,935	100.0

*Total assets break down in the regions as follows EMEA € 12,127,000 (H1/2005: € 25,776,000), The Americas € 0 (H1/2005: € 145,000) and Asia Pacific € 677,000 (H1/2005: € 1,965,000).

Net interest income of € 136,000 (H1/2005: € 123,000) was generated in the EMEA region. Of this, € 138,000 related to interest income (H1/2005: € 169,000) and € -2,000 related to interest expenses (H1/2005: € 46,000). In Germany sales of € 481,000 (H1/2005: € 526,000) were generated.

Results by Business Areas

	Reporting period	Sales in € 000	in %	Gross result in € 000	in %
Access Multiplexers	30 June 2006	1,793	40.1	1,060	40.9
	30 June 2005	2,121	35.7	733	35.6
Connectivity Products	30 June 2006	2,508	56.2	1,381	53.3
	30 June 2005	2,968	49.9	1,006	48.9
Optical Systems	30 June 2006	162	3.7	148	5.8
	30 June 2005	853	14.4	320	15.5
Group	30 June 2006	4,464	100.0	2,589	100.0
	30 June 2005	5,942	100.0	2,059	100.0

Balance Sheet and Cash Flow

Net loss for the period improved from €-6.865m for H1/2005 to €-3.345m for H1/2006, which is an enhancement of 51%. This turns out to be far better than expected especially against the background of major restructuring measures in the first half of this fiscal year. The same applies to EBIT figures in the reporting period. EBIT increased from €-7.058m to €-3.397, i.e. rose by 52%. Mainly this is attributable to major cost savings despite extraordinary expenses for staff cuts. What are the reasons for the decrease in revenue? First, it was necessary to reduce the number of products for sale from as many as 1,334 items to as little as 171 items. At present, we are in the middle of re-orienting our customers to newer generation of products. The shut-down of Hamburg, which was very slow, had a negative effect on production. Dowlake had about 3 months shipping history, which was not fast enough to catch up with demand. If factories had shipped fast enough our semi-annual results for 2006 would have been very close to that of 2005. Now, we expect major increase of capacity and speed from the factory.

Cost of production changed from €-3.883m (H1/2005) to €-3.861m (H1/2006), i.e. a difference of 0.6%. General and administrative expenses performed even better. They amounted to €-1.070m in H1/2006 compared to €-2.366m in H1/2005, which is a decrease of -55% because of major cut-down on over-head with no other board members, and so far, CEO Dan Yang abstains from receiving a salary for her work at PANDATEL. The only exception are selling & marketing expenses. They increased from €-1.359m (H1/2005) to €-1.539m (H1/2006). This is an increase of 13%. Costs for R&D on the other hand went down from €-3.945m in H1/2005 to €-1.975m in H1/2006, i.e. a decrease of 49.9%. By the end of 2005, accounts receivable amounted to €3.4m, which is 3.2 times of the average monthly volume. By the end of June 2006, accounts receivable achieved a value of €2.1m, i.e. 2.8 times of the average monthly volume. This constitutes a net improvement of 12.8% owing to tight control of customer payment.

The company booked incoming orders of €5.017m in the first half 2006 and had orders at hand at the value of €2.277 by 30 June 2006

Liquidity continued to shrink and amounted to €1.778m by the end of H1/2006 after €7.537m for the end of H1/2005. In addition, Pandatel has short-term investments on hand amounting to €2.9m. The total amount of cash available amounts, therefore, to a total of €4.7m. The equity-to-assets ratio remains at a high level of 72% in H1/2006 compared to 82% in H1/2005.

The Company

The subsidiary in Singapore closed its operational business starting from January 1, 2006, and is now continued as reporting office within in Pandatel AG. Lightmaze Solutions AG shut down its operational business by March 31, 2006. The deletion from the Commercial Register is still pending.

Cost

In the period under review, Dowlake Shanghai charged an extraordinarily low product price. The new production facility shipped approximately 2 months worth of revenue from Shanghai with a net profit for PANDATEL of approximately €0.6m. In addition, Dowlake did not charge any setup fee, sourcing cost, engineering support cost, shipping cost, re-engineering cost, nor the cost associated with the bad yield.

The following extraordinary expenses accrued in the first half of 2006: €50,000 for the compensation of former management, €249,000 for terminating Hamburg rental agreements, and € 1.6m for social compensation plan and approximately €200,00 for Eisingen.

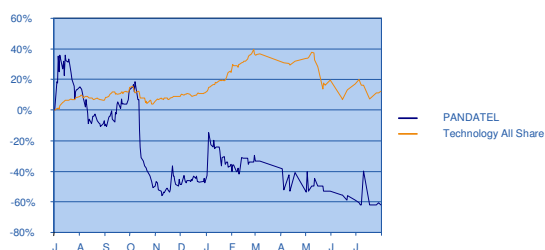
The Share

The share price is very much influenced by business development, i.e. the progress of the restructuring process. Once business starts to improve the equity will gain new momentum too. On the other hand, the PANDATEL share lost a lot of attention due to the change from Prime Standard to General Standard of the Frankfurt Stock Exchange, because prices are no longer continually updated.

The share reached its high of €1.36 in the reporting period on 4 January 2006. Its lowest value the equity

reported at 6 July 2006 with a share price of €0.61.

Performance of the Pandatel share compared to reference indices in %



Outlook/Risks

PANDATEL will put increased focus on its competitiveness and start to promote series of products, rather than one product model for each function. It will start to abandon its old System 2100 and FOMUX products. The company will put increased focus on its competitive TDM over IP, and Ethernet for Last Mile products and start to develop next generation Gigabit Ethernet products.

Our objectives for 2006 are to achieve sales of €8.5m, a minimum operational cash burn rate, to set up a US engineering support team and to speed up production and shipment while at the same time decrease backlog by half.

Risks are the failure of Pandatel & Dowslake merger, and lawsuits as well as expenses related with being a public company. These issues distract management and employees from operations which should be focused on developing new products, customers, and better service.

Financial Calendar

Analyst Conference	November 2006
Annual Report	30 April 2007
Press/Analyst Conference	May 2007

Accounting and valuation principles

As of 1st January 2005, the consolidated financial statement of Pandatel AG was drawn up in € in accordance with the International Financial Reporting Standards (IFRS). The semi-annual financial statements for 2006 will also comply with IFRS. The consolidated financial statements include Pandatel AG as well as Lightmaze Solutions AG, Eisingen (Würzburg), Pandatel Inc., USA, Pandatel Asia Pacific Pte Ltd, Singapore and Pandatel Ltd., Israel, in which Pandatel AG had a controlling financial interest (100% of the voting rights). The statements of the individual companies were drawn up in line with uniform accounting and valuation principles in order to facilitate their inclusion in the consolidated financial statements. All companies included in the consolidation use the same reporting date for the statements. The capital consolidation has been undertaken in line with the so-called book value method by offsetting the cost of acquisition against the proportionate stake in the shareholders' capital of the subsidiary at the time of first inclusion in the consolidation. No differences remained as a result of the consolidation. Loans and other receivables and liabilities between the consolidated companies are offset against each other. Income from intra-group sales as well as other intra-group income are offset against the corresponding expenses. Interim earnings or losses are eliminated.

Consolidated Balance Sheet as of 30 June 2006

ASSETS	Semi-Annual Report	Annual Report
	30 June 2006	31 December 2005
	€000	€000
Non-current assets		
Intangible assets	963	1,030
Property, plant and equipment	1,212	1,361
Goodwill	0	0
Investments	0	0
Notes receivable/loans	0	0
Deferred taxes	300	300
Other assets	0	0
Others	0	0
Total Non-current assets	2,475	2,691
Current assets		
Inventories	2,721	3,644
Trade accounts receivable	2,191	3,422
Accounts receivable due from related parties	0	0
Short-term investments marketable securities	2,900	2,907
Prepaid expenses and other current assets	586	701
Taxes receivable	153	162
Cash and cash equivalents	1,778	5,093
Total current assets	10,329	15,929
Total assets	12,804	18,620
Liabilities and shareholders' equity	Semi-Annual Report	Annual Report
	30. June 2006	31. December 2005
	€000	€000
Shareholders' equity		
Share capital	7,896	7,896
Additional paid-in capital	4,667	4,652
Revenue reserves	0	0
Changes in shareholders' equity from exchange rates	22	544
Revaluation reserve	-41	4
Accumulated deficit	-3,345	0
Total shareholders' equity	9,199	13,096
Non-current liabilities		
Long term debt, less current portion	0	0
Capital lease obligations, less current portion	0	0
Deferred revenues	0	0
Deferred taxes	465	541
Pension accrual	0	0
Others	0	0
Total non-current liabilities	465	541
Current liabilities		
Trade accounts payable	488	562
Accounts payable due to related parties	0	0
Accounts payable due to credit institutions	9	0
Income tax payable	138	138
Tax accruals	0	0
Advance payments received	0	0
Accrued expenses	0	0
Deferred revenues	2,389	3,737
Other current liabilities	116	546
Others	0	0
Total current liabilities	3,140	4,983
Minority interest	0	0
Total Liabilities and shareholders' equity	12,804	18,620

Consolidated Income Statement

	Semi-Annual Report	Semi-Annual Report
	I/2006	I/2005
	01 Jan. 2006-	01 Jan. 2005-
€000	30 June 2006	30 June 2005
Revenues	4,464	5,942
Cost of revenues	-3,861	-3,883
Gross profit/loss	603	2,059
Selling and Marketing expenses	-1,539	-1,359
General and administrative expenses	-1,070	-2,366
Research and Development expenses	-1,975	-3,945
Other operating income and expenses	32	23
Amortization (and impairment) of goodwill	0	0
Restructuring expenses	-5	-1,442
Others	0	0
Operating income/loss	-3,669	-7,030
Interest income and expenses	136	124
Foreign currency exchange gains / losses	0	-8
Other revenues/expenses	0	-20
Result before income taxes (and minority interest)	-3,533	-6,934
Income tax	188	69
Extraordinary income/expenses	0	0
Result before minority interest	-3,345	-6,865
Minority interest	0	0
Net loss for the period	-3,345	-6,865
Earnings per share (basic)	-0,42	-0.87
Earnings per share (undiluted)	-0,42	-0.87
Weighted average shares outstanding (basic)	7,895,806	7,895,806
Weighted average shares outstanding (diluted)	7,895,806	7,895,806

Consolidated Statement of Cash Flow

€000	01 Jan. 2006- 30 June 2006	01 Jan. 2005- 30 June 2005
Net loss before extraordinary items	-3,345	-6,866
Depreciation/appreciation on tangible assets	141	2,898
Depreciation/appreciation on intangible assets	65	0
Expenses for stock options	15	0
Other expenses/revenues affecting earnings	0	0
Losses/gains on the disposal of fixed assets	0	401
Cash flow	-3,224	-3,567
Changes in		
Trade accounts receivable	1,231	310
Inventories	923	381
Other assets which cannot be classified as investing or financing activities	317	-1,072
Changes in		
Trade accounts payable	-74	348
Deferred taxes	-76	1,341
Other liabilities which cannot be classified as investing or financing activities	-1,769	55
Payments of extraordinary items	0	0
Cash flow from operating activities	-2,572	-2,204
Income from disposal of fixed assets	139	0
Payment for investments in tangible assets	-131	-184
Income from disposal of intangible assets	2	0
Payment for investments in intangible assets	0	-58
Income from the sale of securities	0	0
Payments for investments in financial assets	0	0
Acquisition of subsidiaries less transferred cash and cash equivalents	0	0
Payments owing to investments of financial resources as part of short-term treasury transactions	0	0
Cash flow from investing activities	10	-242
Changes in long term debt	0	0
Income from appropriation of shareholders' equity (capital increase)	0	49
Cost of IPO	0	0
Dividends	0	0
Cash flow from financing activities	0	49
Changes in cash balances impacting earnings	-2,793	-2,397
Changes in cash balances owing to exchange rate differences	-522	56
Cash and cash equivalents at beginning of the period	5,093	9,878
Cash and cash equivalents at end of the period	1,778	7,537
Interest paid	2	4
Tax paid	8	38

Statement of Changes in Shareholders' Equity

Changes in shareholders' equity according to IFRS	Subscribed capital		Capital reserves	Revenue reserves	Profit brought forward	Other changes in shareholders' equity not affecting earnings		Total Shareholders' equity
	Shares	€000	€000	€000	€000	Accumulated exchange rate adjustments	Available-for-Sale Securities	€000
						€000	€000	€000
As of 31 December 2004	7,895,806	7,896	21,471	0	0	241	-122	29,486
Stock option program			49					49
Allocation to revenue reserves								0
Net loss for the period					-4,319			-4,319
Dividends								
Unrealized exchange and currency diff. after deducting taxes of 40%						-171		-171
Unrealized exchange and currency diff. not affecting tax liability							275	275
As of 30 June 2005	7,895,806	7,896	21,628	0	-4,319	70	153	25,429
					-4,319		223	
As of 31 December 2005	7,895,806	7,896	4,651	0	0	544	4	13,096
Stock option program			15					15
Appropriation to revenue reserves								0
Withdrawal from reserves								0
Net loss for the period					-3,345			-3,345
Dividends								
Unrealized exchange and currency diff. after deducting taxes of 40%						-521		-521
Unrealized exchange and currency diff. not affecting tax liability							-46	-46
As of 30 June 2006	7,895,806	7,896	4,667	0	-3,345	22	-41	9,199
					-3,345		-19	

PANDATEL

86 countries, 800+ customers, 100,000+ units of communications products deployed in today's worldwide networks.

Our History

- 1987: Pandatel formed as Pan Dacom Telekommunikation GmbH
- 1999: Pandatel went public, listed at the Prime Standard of Frankfurt Stock Exchange
- 2004: Pandatel acquired Lightmaze Solutions AG, a specialist in optical metro WDM transport systems
- 2005: Dowslake Venture Ltd., a major shareholder of Dowslake Microsystems, acquired 49.98% stake in Pandatel AG
- 2006: Pandatel is in the process of merging with Dowslake Microsystems, headquartered in Santa Clara, California. Dowslake has a fully owned operations center in Shanghai, China.
- Up to 2006: Pandatel deployed more than 100,000 units of communications products, with 800 satisfied customers in over 86 countries.



Our Focus

Leveraging on our technology and know-how, working with hundreds of customers worldwide, we focus on providing cost-effective network solutions to network operators and service providers in following areas: enterprise, security, military, home and local access.

Our Commitment

We commit to make continuous improvement on our products, operations process and our support networks. We commit to work on issues and problems to reach our goal – to meet and exceed customers' expectations.

Ethernet Solutions – from Optical to Last Mile

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