



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司 *

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

THIRD QUARTER 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.

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

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

- Turnover for the Three-Month Period reached HK\$158,331,000 with net loss of HK\$12,164,000. Turnover for the Nine-Month Period amounted HK\$338,341,000 with net loss of HK\$31,605,000
- Continued to streamline the operations in the PRC in accordance to the current market environment
- TSTSH continued to successfully secure software projects, with the first internet protocol based network management system project being awarded
- MIHL entered into an agreement with Red Flag to develop the Traditional Chinese version of Redflag Linux operating system
- The Dutch subsidiary entered into an agreement with one of the largest mobile phone retailers to promote a self-developed ringtone product in the Netherlands
- STASA won back from its competitor to become the interactivity partner of one of the largest national television stations to roll out one of the most popular reality voting shows in Spain
- The Board does not recommend payment of an interim dividend

THIRD QUARTER RESULTS

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

		Three months ended 30th September, 2004	Three months ended 30th September, 2004	Nine months ended 30th September, 2004
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover		158,331	89,678	338,341
Cost of sales		(141,682)	(71,724)	(288,581)
Gross profit		16,649	17,954	49,760
Other revenues		1,603	4,973	8,690
Selling and administrative expenses		(29,778)	(32,767)	(89,047)
Operating loss		(11,526)	(9,840)	(30,597)
Deemed disposal gain from separate listing of MIHL		—	—	10,769
Finance costs		(1,976)	(906)	(5,455)
Share of losses of associated companies		(470)	(214)	(1,098)
(Loss)/profit before taxation		(13,972)	(10,960)	(37,150)
Taxation	1	(134)	829	(134)
(Loss)/profit after taxation		(14,106)	(10,131)	(37,284)
Minority interests		1,942	(714)	5,679
(Loss)/profit attributable to Members		(12,164)	(10,845)	(31,605)
Dividends		—	—	6,413
(Loss)/earnings per Share (HK cents)				
— Basic	2	(1.98)	(1.77)	(5.15)
— Diluted	2	Not applicable	Not applicable	Not applicable

Notes:

1. Taxation

Profits tax had been provided at the rate of 17.5% on the estimated assessable profit for the Nine-Month Period. Taxation on overseas profit had been calculated on the estimated assessable profit for the Nine-Month Period at the rate of taxation prevailing in the regions in which in the Group operated.

2. (Loss)/earnings per Share

The calculation of the basic (loss)/earnings per Share was based on the loss of the Group attributable to Members of HK\$31,605,000 (nine months ended 30th September, 2004: profit of HK\$6,687,000) and the weighted average of 613,819,000 Shares (nine months ended 30th September, 2004: 613,819,000 Shares) in issue during the Nine-Month Period.

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

3. Reserves

	Capital Investment							Total HK\$'000
	Share premium	redemption reserve	revaluation reserve	Merger reserve	Exchange reserve	Statutory reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	—	—	69	—	—	—	—	69
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	—	—	—	—	(2,038)	—	—	(2,038)
Loss attributable to Members	—	—	—	—	—	—	(31,605)	(31,605)
As at 30th September, 2005	<u>97,676</u>	<u>702</u>	<u>5,384</u>	<u>35,549</u>	<u>996</u>	<u>49</u>	<u>(62,600)</u>	<u>77,756</u>

	Capital Investment							Total HK\$'000
	Share premium	redemption reserve	revaluation reserve	Merger reserve	Exchange reserve	Statutory reserve	Retained earnings	
	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	—	—	—	2,160	—	—	—	2,160
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	—	—	—	—	105	—	—	105
Profit attributable to Members	—	—	—	—	—	—	6,687	6,687
Eighteen months ended 31st December, 2004 interim dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
As at 30th September, 2004	<u>97,676</u>	<u>702</u>	<u>8,091</u>	<u>39,643</u>	<u>164</u>	<u>49</u>	<u>149,672</u>	<u>295,997</u>

BUSINESS REVIEW

During the Three-Month Period, the operating environment in the PRC in the arena of data networking infrastructure, which has previously been hampered by increasing competition and pricing pressures, can now be described to have stabilised. The market, though difficult, continued to offer business opportunities. Among the projects completed during the Three-Month Period were contracts from Dalian University, Guangdong China Telecom, Jiangsu China Telecom, Shanghai China Telecom, Guizhou China Telecom and Beijing China Telecom. In line with the current market environment, the Group has continued to streamline its operations in the PRC accordingly by consolidating its coverage in the PRC so as to maximise uses of resources and to achieve cost savings.

The operation support system, which is a network management software system for telecommunications operators developed by TSTSH, continued to gain market acceptance. With each project that TSTSH is involved in, the Group is able to enrich the software with new and enhanced features and functionalities, thus increasing the marketability of the software. During the Three-Month Period, TSTSH successfully secured more projects, with new contracts from Chongqing China Telecom, Sichuan China Telecom and Taizhou China Telecom, and expansion contracts from Guangdong China Telecom and Guangzhou China Telecom being awarded. The project from Chongqing China Telecom has, in particular, been very encouraging as it is not only the second project awarded by Chongqing China Telecom, but is the first internet protocol based network management system project won by TSTSH.

During the Three-Month Period, the Group has been working on the various projects secured from the Government of Macao and the East Asian Games. This also applies to MIHL, who has been focusing on completing the various projects previously secured for the East Asian Games. In addition, MIHL has successfully secured from the Government of Macao a contract for the second phase of the e-government project and has entered into an agreement with Red Flag to jointly develop and market the Traditional Chinese version of Redflag Linux operating system. These strategic ties are expected to be helpful to promote the Mega-branded software solutions of MIHL via the established network of Red Flag in the PRC.

With respect to TCM, subsequent to the successful completion of a six-month trial programme to provide telephone inquiry services to a major lottery company in the Netherlands, the Dutch subsidiary will soon be awarded a contract to be the official interactivity service provider of the lottery company. The Dutch subsidiary has also entered into agreement with one of the largest mobile phone retailers in the Netherlands to promote a ringtone product developed by TCM.

In Spain, the Spanish subsidiary recovered strongly after suffering a setback from the financial distress situation prior to the acquisition by the Group. As mentioned previously in the interim results of the Group, STASA is the only company that provides interactive television programme services to all the three nationwide television stations in Spain. During the Three-Month Period, STASA continued to work as the interactivity partner of the three national television stations, rolling out new programmes with each national television station, including a charity show, a new Call & Win programme via a radio station and one of the most popular reality voting shows in Spain, the programme of which STASA has lost to its competitors for the past three years.

FINANCIAL REVIEW

During the Three-Month Period, with heightened business activities in Macao and TCM and the consolidation of Communications Appliances Ou Chung Limited, incorporated in Macao with limited liability and an indirectly wholly-owned subsidiary of the Company, the Group reported an increase of 76.6% in turnover, with turnover reaching HK\$158,331,000. Although profits in the PRC (other than the region of Macao) and business in the provision of interactivity services and short message services carried higher margins, such have been offset by the lower margin projects in Macao and distribution of handsets, resulting in gross profit margin of the Group to decrease to 10.5%. Attributable to higher finance costs as a result of increasing interest rates and prepayment fees levied from the early repayment of the US\$15,000,000 (approximately HK\$116,700,000) syndicated loan, the Group experienced loss of HK\$12,164,000 for the Three-Month Period.

During the Three-Month Period, the Group early repaid the remaining balance of the US\$15,000,000 (approximately HK\$116,700,000) syndicated loan raised during 2003. Subsequent to the early repayment, cash balances of the Group amounted to HK\$90,200,000 with gearing ratio (total borrowings/Members' funds) reduced to 62.1%.

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

As at 30th September, 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 or 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)	—	13,072,000	2.13%
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 September, 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 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.
- (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 September, 2005, he was deemed to have a short position in 13,072,000 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 September, 2005, the following persons (other than a Director or Chief Executive) had interests or short positions in the Shares and 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 of Substantial Shareholder	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)	—	13,072,000	2.13%
LRL	Long position	Corporate interest (Note 1)	293,388,000	—	47.80%
	Short position	Corporate interest (Note 2)	—	13,072,000	2.13%
Lei Hon Kin (Note 3)	Long position	Family interest	293,988,000	—	47.89%
	Short position	Corporate interest	—	13,072,000	2.13%

Notes:

- (1) As at 30th September, 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 September, 2005, they were deemed to have a short position in 13,072,000 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.

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 at 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 LISTED SECURITIES

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

DEFINITIONS

“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
“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
“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
“HK cents”	Hong Kong cents, where 100 HK cents equal HK\$1
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC (not applicable to 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 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

“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
“Nine-Month Period”	the nine months ended 30th September, 2005
“PRC”	The People’s Republic of China
“Red Flag”	北京中科紅旗軟件技術有限公司, a company incorporated in the PRC with limited liability
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“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 September, 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

By order of the Board
José Manuel dos Santos
Chairman

Hong Kong, 14th November, 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