



**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**

**2008**

\* *for identification purpose only*

## Characteristics of GEM

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

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

- Turnover for the Three-Month Period and Six-Month Period amounted to HK\$52,171,000 and HK\$112,908,000 respectively, with gross profit margin for the Three-Month Period reaching 29.23%
- With dividends declared from TTSA exceeding HK\$8,228,000, the Group reported operating profit of HK\$5,803,000 for the Three-Month Period
- Profit from discontinued operations of HK\$1,670,000 earned subsequent to the disposal of the Property and CAOCL during the Six-Month Period
- Despite operating loss of HK\$10,610,000 reported during the first quarter of 2008, operating profit earned during the Three-Month Period and reversal of tax overprovided in previous years, the Group reported net profit of HK\$10,558,000 for the Six-Month Period
- TSTSH continued to receive encouraging results, with its TS-IEMS successfully sold to telecommunications service providers in the province of Jiangxi and the municipality of Chongqing
- Completed a number of projects in the provision of trunking radio systems and surveillance solutions and successfully completed the second part of Phase II of the APC system for the Macao Security Force under the Government of Macao
- Dividends received and declared from TTSA exceeded the total investment made by the Group
- Cash and cash equivalents (including pledged time deposits) amounted to HK\$85,554,000 with equity base of the Group reaching HK\$117,930,000
- The Board does not recommend payment of a dividend for the Three-Month Period

## INTERIM RESULTS

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

### Condensed Consolidated Interim Balance Sheet

	Note	As at 30th June, 2008 (Unaudited) HK\$'000	As at 31st December, 2007 (Audited) HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,244	1,358
Investment in an associate		621	572
Available-for-sale financial assets		20,009	25,967
		<u>21,874</u>	<u>27,897</u>
<b>Current assets</b>			
Inventories		32,130	25,062
Income tax prepaid		1,098	1,034
Trade and bills receivables	5	91,742	126,822
Other receivables, deposits and prepayments		28,105	19,354
Pledged time deposits		11,635	8,475
Cash and cash equivalents		73,919	64,429
		<u>238,629</u>	<u>245,176</u>
Non-current assets held for sale		—	5,356
		<u>238,629</u>	<u>250,532</u>

	Note	As at 30th June, 2008 (Unaudited) HK\$'000	As at 31st December, 2007 (Audited) HK\$'000
<b>Current liabilities</b>			
Trade and bills payables	6	69,075	89,839
Other payables and accruals		54,239	42,963
Current income tax liabilities		19,259	32,958
		<u>142,573</u>	<u>165,760</u>
Liabilities directly associated with non-current assets classified as held for sale		—	1,215
		<u>142,573</u>	<u>166,975</u>
<b>Net current assets</b>		<u>96,056</u>	<u>83,557</u>
<b>Total assets less current liabilities</b>		<u><u>117,930</u></u>	<u><u>111,454</u></u>
<b>Financed by:</b>			
<b>EQUITY</b>			
<b>Capital and reserves</b>			
<b>attributable to the equity holders</b>			
<b>of the Company</b>			
Share capital		61,382	61,382
Other reserves	7	132,636	136,718
Accumulated losses		(83,162)	(93,377)
		<u>110,856</u>	104,723
<b>Minority interest in equity</b>		<u>7,074</u>	<u>6,731</u>
<b>Total equity</b>		<u><u>117,930</u></u>	<u><u>111,454</u></u>

The notes on pages 8 to 18 are an integral part of this condensed interim financial information.

## Condensed Consolidated Interim Income Statement

		Three months ended 30th June, 2007 (Unaudited) HK\$'000	Three months ended 30th June, 2007 (Unaudited) HK\$'000 (restated)	Six-Month Period (Unaudited) HK\$'000	Six months ended 30th June, 2007 (Unaudited) HK\$'000 (restated)
	Note				
<b>Continuing operations</b>					
Revenue	3	52,171	64,200	112,908	120,290
Cost of sales		(36,921)	(49,340)	(89,029)	(95,244)
<b>Gross profit</b>		<b>15,250</b>	14,860	<b>23,879</b>	25,046
Selling, marketing costs and administrative expenses		(17,534)	(16,314)	(36,917)	(33,161)
Other gains - net		8,087	2,628	8,231	3,475
<b>Operating profit/(loss)</b>		<b>5,803</b>	1,174	<b>(4,807)</b>	(4,640)
Finance income		188	575	477	1,047
Finance costs		—	—	—	(6)
Finance income-net		188	575	477	1,041
Share of profit of an associate		179	44	48	88
<b>Profit/(loss) before income tax</b>		<b>6,170</b>	1,793	<b>(4,282)</b>	(3,511)
Income tax (expense)/credit	8	(1,226)	(1,327)	13,170	13,289
Profit for the period from continuing operations		<b>4,944</b>	466	<b>8,888</b>	9,778
<b>Discontinued operations</b>					
(Loss)/profit for the period from discontinued operations	9	(369)	2,970	1,670	32,982
Profit for the period		<b>4,575</b>	3,436	<b>10,558</b>	42,760
<b>Attributable to:</b>					
Equity holders of the Company		4,253	3,165	10,215	42,586
Minority interest		322	271	343	174
		<b>4,575</b>	3,436	<b>10,558</b>	42,760

		Three months ended 30th June, 2007 (Unaudited) HK\$'000	Three months ended 30th June, 2007 (Unaudited) HK\$'000 (restated)	Six months ended 30th June, 2007 (Unaudited) HK\$'000	Six months ended 30th June, 2007 (Unaudited) HK\$'000 (restated)
<b>Earnings per Share for profit</b>					
<b>from continuing operations</b>					
<b>attributable to the equity holders</b>					
<b>of the Company during the period</b>					
<b>(expressed in HK cents per Share)</b>					
— basic	10	<u>0.75</u>	<u>0.04</u>	<u>1.39</u>	<u>1.57</u>
— diluted		<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<b>(Loss)/earnings per Share for</b>					
<b>(loss)/profit from discontinued</b>					
<b>operations attributable to the equity</b>					
<b>holders of the Company during</b>					
<b>the period (expressed in</b>					
<b>HK cents per Share)</b>					
— basic	10	<u>(0.06)</u>	<u>0.48</u>	<u>0.27</u>	<u>5.37</u>
— diluted		<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<b>Earnings per Share for</b>					
<b>profit attributable</b>					
<b>to the equity holders</b>					
<b>of the Company</b>					
<b>during the period</b>					
<b>(expressed in HK cents</b>					
<b>per Share)</b>					
— basic	10	<u>0.69</u>	<u>0.52</u>	<u>1.66</u>	<u>6.94</u>
— diluted		<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<b>Dividends</b>	11	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The notes on pages 8 to 18 are an integral part of this condensed interim financial information.

## Condensed Consolidated Interim Statement of Changes in Equity

Unaudited

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Accumulated losses	Total	Minority interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance as at 1st January, 2007</b>	159,058	24,348	(149,442)	33,964	5,556	39,520
Fair value gain for available-for-sale financial assets	—	13,147	—	13,147	—	13,147
Currency translation differences	—	(283)	—	(283)	—	(283)
Net income recognised directly in equity	—	12,864	—	12,864	—	12,864
Profit for the six months ended 30th June, 2007	—	—	42,586	42,586	174	42,760
<b>Total recognised income and expense for the six months ended 30th June, 2007</b>	—	12,864	42,586	55,450	174	55,624
Reduction of share premium credited to contributed surplus	(97,676)	97,676	—	—	—	—
<b>Balance as at 30th June, 2007</b>	<u>61,382</u>	<u>134,888</u>	<u>(106,856)</u>	<u>89,414</u>	<u>5,730</u>	<u>95,144</u>
<b>Balance as at 1st January, 2008</b>	<u>61,382</u>	<u>136,718</u>	<u>(93,377)</u>	<u>104,723</u>	<u>6,731</u>	<u>111,454</u>
Fair value loss for available-for-sale financial assets	—	(5,958)	—	(5,958)	—	(5,958)
Currency translation differences	—	1,876	—	1,876	—	1,876
Net expense recognised directly in equity	—	(4,082)	—	(4,082)	—	(4,082)
Profit for the Six-Month Period	—	—	10,215	10,215	343	10,558
<b>Total recognised income and expense for the Six-Month Period</b>	—	(4,082)	10,215	6,133	343	6,476
<b>Balance as at 30th June, 2008</b>	<u>61,382</u>	<u>132,636</u>	<u>(83,162)</u>	<u>110,856</u>	<u>7,074</u>	<u>117,930</u>

The notes on pages 8 to 18 are an integral part of this condensed interim financial information.

## Condensed Consolidated Interim Cash Flow Statement

	<b>Six- Month Period (Unaudited) HK\$'000</b>	For the six months ended 30th June, 2007 (Unaudited) HK\$'000
Net cash generated from/(used in) operating activities	<b>12,161</b>	(40,644)
Net cash generated from investing activities	<b>489</b>	7,394
Net cash used in financing activities	<b>(3,160)</b>	(2,854)
<b>Net increase/(decrease) in cash and bank overdrafts</b>	<b>9,490</b>	(36,104)
Cash and bank overdrafts at beginning of the Six-Month Period	<b>64,429</b>	108,059
<b>Cash and bank overdrafts at end of the Six-Month Period</b>	<b>73,919</b>	71,955

The notes on pages 8 to 18 are an integral part of this condensed interim financial information.

The unaudited consolidated results of the Group for the Three-Month Period and Six-Month Period were reviewed by the Audit Committee.

*Notes:*

**1. Basis of preparation**

This condensed consolidated interim financial information for the Six-Month Period were prepared in accordance with HKAS 34, “Interim Financial Reporting”. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31st December, 2007.

**2. Accounting policies**

The accounting policies and methods of computation adopted were consistent with those of the annual financial statements for the year ended 31st December, 2007.

As described in the annual financial statements for the year ended 31st December, 2007, the following new interpretations were mandatory for financial year ended 31st December, 2008.

- HK(IFRIC) – Int 11, “Hong Kong Financial Reporting Standard 2 – Group and Treasury Share Transactions”. HK(IFRIC)-Int 11 would provide guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over shares of a holding company) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the holding company and group companies. HK (IFRIC) – Int 11 would not be relevant to the operations of the Group because there is no transaction involving treasury shares and the Company has no holding company.
- HK(IFRIC) – Int 12, “Service Concession Arrangements”. HK(IFRIC)-Int 12 would apply to contractual arrangements whereby a private sector operator would participate in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 would not be relevant to the operations of the Group because none of the companies of the Group provided public sector services.
- HK(IFRIC) – Int 14, “HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”. HK(IFRIC)-Int 14 would provide guidance on assessing the limit in HKAS 19 on the amount of the surplus that could be recognised as an asset. It would also explain how the pension asset or liability might be affected by a statutory or contractual minimum funding requirement. HK(IFRIC) – Int 14 would not be relevant to the operations of the Group because none of the companies of the Group operate any defined benefit schemes.

### 3. Segment information - primary reporting format - business segments

As at 31st December, 2007, the Group was organised into two main business segments:

- (a) Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment; and
- (b) Sale of mobile phones.

On 30th June, 2008, the Group disposed of the operations relating to the sale of mobile phones.

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

	<u>Continuing operations</u>	<u>Discontinued operations</u>
	<b>Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment</b>	<b>Sale of mobile phones</b>
	HK\$'000	HK\$'000
<b>Revenue</b>	112,908	10,556
Operating (loss)/profit	(4,807)	1,670
Finance income	477	—
Share of profit of an associate	48	—
<b>(Loss)/profit before income tax</b>	(4,282)	1,670
Income tax credit	13,170	—
<b>Profit for the Six-Month Period</b>	8,888	1,670

The segment results for the six months ended 30th June, 2007 were as follows:

	Continuing operations	Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment HK\$'000	Sale of mobile phones HK\$'000	Provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS HK\$'000	Total HK\$'000
Revenue	120,290	28,084	12,868	40,952
Operating (loss)/profit	(4,640)	(505)	5,783	5,278
Gain on disposal of subsidiaries	—	—	27,704	27,704
Finance income	1,047			—
Finance costs	(6)			—
Finance income-net	1,041			—
Share of profit of an associate	88			—
<b>(Loss)/profit before income tax</b>	(3,511)			32,982
Income tax credit	13,289			—
<b>Profit for the period ended 30th June, 2007</b>	9,778			32,982

Other segment items included in the consolidated condensed interim income statement were as follows:

	Continuing operations	Discontinued operations		
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment HK\$'000	Sale of mobile phones HK\$'000	Provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS HK\$'000	Total HK\$'000
<b>Six-Month Period</b>				
Depreciation	276	19	—	19
<b>Six months ended 30th June, 2007</b>				
Depreciation	1,376	42	157	199
Amortisation of software licence	—	—	91	91

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

Segment assets consisted primarily of freehold land, property, plant and equipment, investment in an associate, inventories, income tax prepaid, trade, bills and other receivables, deposits and prepayments, pledged time deposits, cash and cash equivalents.

Segment liabilities comprised operating liabilities.

Capital expenditure comprised additions to property, plant and equipment.

The segment assets and liabilities as at 30th June, 2008 and capital expenditure for the Six-Month Period were as follows:

	<u>Continuing operations</u>	<u>Discontinued operations</u>
	<b>Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment</b>	<b>Sale of mobile phones</b>
	HK\$'000	HK\$'000
Assets	259,882	—
Investment in an associate	621	—
	<hr/>	<hr/>
<b>Total assets</b>	<b>260,503</b>	<b>—</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>	<b>142,573</b>	<b>—</b>
<b>Capital expenditure</b>	<b>105</b>	<b>—</b>

The segment assets and liabilities as at 31st December, 2007 and capital expenditure for the six months ended 30th June, 2007 were as follows:

	<u>Continuing operations</u>	<u>Discontinued operations</u>
	<b>Design, sale and implementation of data networking systems, provision of related engineering services and sale of networking equipment</b>	<b>Sale of mobile phones</b>
	HK\$'000	HK\$'000
Assets	272,501	5,356
Investment in an associate	572	—
	<hr/>	<hr/>
<b>Total assets</b>	<b>273,073</b>	<b>5,356</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>	165,760	1,215
<b>Capital expenditure</b>	19	2

#### 4. Dividend income, profit on sale of properties, cost of goods sold and depreciation

During the Six-Month Period, dividend income from unlisted investment of HK\$8,228,000 (six months ended 30th June, 2007: HK\$2,735,000) was declared, and the profit on sale of the Property of HK\$2,565,000 (six months ended 30th June, 2007: Nil) was included in profit for the period from discontinued operations.

Cost of goods sold for the Six-Month Period was HK\$77,353,000 (six months ended 30th June, 2007: HK\$80,225,000). During the Six-Month Period, depreciation of HK\$276,000 (six months ended 30th June, 2007: HK\$1,376,000) was charged in respect of the property, plant and equipment of the Group.

## 5. Trade and bills receivables

The credit terms granted to customers varied and were generally the result of negotiations between customer and the Group. As at 30th June, 2008, the ageing analysis of the gross trade and bills receivables was as follows:

	<b>As at 30th June, 2008 HK\$'000</b>	As at 31st December, 2007 HK\$'000
Within three months	39,261	93,866
>Three months but ≤ six months	18,580	9,068
>Six months but ≤ twelve months	15,612	12,124
Over twelve months	86,451	84,277
	<u>159,904</u>	<u>199,335</u>

## 6. Trade and bills payables

As at 30th June, 2008, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) was as follows:

	<b>As at 30th June, 2008 HK\$'000</b>	As at 31st December, 2007 HK\$'000
Within three months	32,529	49,410
> Three months but ≤ six months	4,512	2,511
> Six months but ≤ twelve months	8,108	13,727
Over twelve months	23,926	24,191
	<u>69,075</u>	<u>89,839</u>

## 7. Other reserves

	Contributed surplus	Other reserve	Capital redemption reserve	Available-for-sale investments reserve	Merger reserve	Translation reserve	Statutory reserve	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
<b>Balance as at 1st January, 2007</b>	—	—	702	(11,536)	35,549	(416)	49	24,348
Revaluation	—	—	—	13,147	—	—	—	13,147
Currency translation differences	—	—	—	—	—	(283)	—	(283)
Reduction of share premium credited to contributed surplus	97,676	—	—	—	—	—	—	97,676
<b>Balance as at 30th June, 2007</b>	<u>97,676</u>	<u>—</u>	<u>702</u>	<u>1,611</u>	<u>35,549</u>	<u>(699)</u>	<u>49</u>	<u>134,888</u>
<b>Balance as at 1st January, 2008</b>	97,676	2,289	702	(918)	35,549	1,371	49	136,718
Revaluation	—	—	—	(5,958)	—	—	—	(5,958)
Currency translation differences	—	—	—	—	—	1,876	—	1,876
<b>Balance as at 30th June, 2008</b>	<u>97,676</u>	<u>2,289</u>	<u>702</u>	<u>(6,876)</u>	<u>35,549</u>	<u>3,247</u>	<u>49</u>	<u>132,636</u>

## 8. Income tax expense/(credit)

Hong Kong profits tax was provided at the rate of 16.5% (six months ended 30th June, 2007: 17.5%) on the estimated assessable profit for the Six-Month Period. Taxation on overseas profits was calculated on the estimated assessable profit for the Six-Month Period at the rates of taxation prevailing in the regions in which the Group operated.

	<b>Six-Month Period HK\$'000</b>	Six months ended 30th June, 2007 HK\$'000
Current income tax		
– Hong Kong profits tax	<b>128</b>	—
– Macao complementary profits tax	<b>186</b>	806
– Mainland China profits tax	<b>641</b>	520
– Over-provision in prior years	<b>(14,125)</b>	(14,615)
	<u><b>(13,170)</b></u>	<u>(13,289)</u>

## 9. Non-current assets held for sale and discontinued operations

The Group determined to dispose of TCM, which was presented as a separate segment for provision of multimedia value-added services via IVR, interactive Internet solutions and premium SMS, on 24th November, 2006. TCM was deregistered on 18th September, 2007.

In addition, the Group determined to dispose of CAOCL, which was presented as a separate segment of sale of mobile phones, on 13th December, 2007. The assets and liabilities related to CAOCL as at 31st December, 2007 were presented as held for sale. CAOCL was disposed on 30th June, 2008.

## 10. Earnings per Share

### (a) Basic

Basic earnings per Share was calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of Shares in issue during the Six-Month Period.

	<b>Six-Month Period</b>	Six months ended 30th June, 2007 (restated)
<b>Continuing operations</b>		
Profit attributable to equity holders of the Company (HK\$'000)	<b>8,545</b>	9,604
Weighted average number of Shares in issue (thousands)	<b>613,819</b>	613,819
Basic earnings per Share (HK cents)	<b>1.39</b>	1.57
<b>Discontinued operations</b>		
Profit attributable to equity holders of the Company (HK\$'000)	<b>1,670</b>	32,982
Weighted average number of Shares in issue (thousands)	<b>613,819</b>	613,819
Basic earnings per Share (HK cents)	<b>0.27</b>	5.37
<b>Total</b>		
Profit attributable to equity holders of the Company (HK\$'000)	<b>10,215</b>	42,586
Weighted average number of Shares in issue (thousands)	<b>613,819</b>	613,819
Basic earnings per Share (HK cents)	<b>1.66</b>	6.94

(b) **Diluted**

Diluted earnings per Share was calculated by adjusting the weighted average number of Shares outstanding to assume conversion of all dilutive potential Shares. The Company has Options as dilutive potential Shares. A calculation was made in order to determine the number of Shares that could have been acquired at fair value (determined as the average market price of the Shares for the Six-Month Period) based on the monetary value of the subscription rights attached to outstanding Options. The number of Shares calculated as above was compared with the number of Shares that would have been issued assuming the exercise of the Options. No diluted earnings per Share for the Six-Month Period was presented as the exercise of the outstanding Options would have an anti-dilutive effect. No diluted loss per Share for the six months ended 30th June, 2007 was presented as there were no options, warrants or other convertible instruments in issue.

**11. Dividends**

The Directors did not recommend the payment of an interim dividend for the Six-Month Period (six months ended 30th June, 2007: Nil).

**12. Related party transactions**

During the Six-Month Period, the Group had significant transactions with related parties which were carried out in the normal course of business at terms determined and agreed by both parties, details of which were as follows:

- (a) The Group had transactions with a related company owned by a Director, José Manuel dos Santos, as follows:

	<b>Six-Month Period HK\$'000</b>	Six months ended 30th June, 2007 HK\$'000
Sale of goods	3	8
Purchase of goods	(24)	—
Occupancy costs	(54)	(54)
	<u>          </u>	<u>          </u>

- (b) During the Six-Month Period, the Group paid occupancy costs of approximately HK\$357,000 (six months ended 30th June, 2007: approximately HK\$339,000) to a Director, José Manuel dos Santos.
- (c) Remuneration to all key management for the Six-Month Period were HK\$3,992,000 (six months ended 30th June, 2007: HK\$4,290,000).
- (d) On 19th February, 2008, a sale and purchase deed was entered into between a subsidiary and José Manuel dos Santos, a Director, relating to the sale of the Property for HK\$4,800,000.
- (e) As at 30th June, 2008, other receivables, deposits and prepayments consisted of receivable from a director of a subsidiary of approximately HK\$100,000 (31st December, 2007: HK\$100,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF BUSINESS ACTIVITIES

#### Mainland China

In view of the demand for network infrastructural prospects based on Time-Division Multiplexing (TDM) and Asynchronous Transfer Mode (ATM) technology in the PRC remained on a declining trend, during the Three-Month Period, the Group continued to expand its focus into other product/service offerings, in particular, in the undertaking of maintenance, repair and service support contracts for various telecommunications service providers, this business of which carries higher operating margin and allows the Group to enjoy a stable recurring revenue stream. Despite so, during the Three-Month Period, the Group completed various network infrastructural expansion projects for different telecommunications service providers in Beijing, Shanghai, Guangdong and Suzhou.

Another area of focus of the Group is geared towards the provision of software and value-added solutions. In this spectrum, during the Three-Month Period, TSTSH (as system integrator) successfully partnered with the telecommunications service provider in the province of Jiangxi (as product provider) to implement TS-IEMS at different police patrol points to conduct improved environmental monitoring by utilising information in the community in alert management, business, video surveillance management, fault management and multi-regional control centres and access control management. In addition, TSTSH also secured a contract from the telecommunications service provider in the municipality of Chongqing to implement its TS-IEMS in their equipment control rooms as a means to provide effective environmental monitoring. During the Three-Month Period, TSTSH successfully completed the initial acceptance test for the installation of CNMS installed at the telecommunications service provider in the province of Jiangxi, and in the process of completing the final and initial acceptance tests for the installation of the CNMS installed at the telecommunications service providers in the provinces of Jiangsu and Hainan respectively.

With the acquisition of the code division multiple access (CDMA) networks of China Unicom by China Telecom to be concluded in due course, to capture the opportunity arose from China Telecom operating mobile services and in preparation of the Ministry of Industry and Information Technology of PRC issuing 3G license, the Group is currently in the process of developing different value-added solutions, one of which being an application controlling platform. This application controlling platform allows the data gathering and analysis of the personal favorites of each individual mobile/Internet user. With such information in place, telecommunications service providers, instead of traditional mass marketing or dissemination of promotional materials, can now more precisely and effectively induce direct marketing of products or services to each user based on their personal interests and preferences.

## **Macao**

During the Three-Month Period, gaming and hotel operators and the Government of Macao continued to be the core clientele of the Group and the Group completed various projects in the provision of trunking radio systems and variation orders in the provision of surveillance solutions for different gaming and hotel operators. In the same period, MDL completed the installation of an office network comprising of servers, storage, workstations and desktops for a gaming operator and various departments under the Government of Macao. In addition, during 2007, MDL successfully secured from the Macao Security Force under the Government of Macao to expand the APC system. The APC system, the second part of which completed during the Three-Month Period, is Phase II of the automated system that operates 24/7 to provide effective patrol of both inbound and outbound custom clearance of passengers at the Macao border connecting to Mainland China.

Following the footsteps of the strategy adopted in Mainland China to focus on the provision of maintenance, repair and support services, the Group successfully secured a number of maintenance and repair service contracts from different gaming and hotel operators and the Government of Macao.

## **International Investments**

With respect to the 16.9% equity participation in TTSA, which was established in 2002 to provide exclusive telecommunications services to Timor-Leste, subsequent to the first dividend payout of approximately HK\$2,700,000 received during 2007, TTSA continued to deliver exceptional and encouraging results for its operating performance during 2007, with the share of dividends declared and to be received by the Group reaching HK\$8,228,000.

## **REVIEW OF OPERATING RESULTS**

### **Turnover and Profitability**

During the Three-Month Period, with contracts involving maintenance, repair and support services and the installation and implementation portion of different projects completed, turnover for the Three-Month Period amounted to HK\$52,171,000, with gross profit margin increasing to 29.23%. With gross profit of HK\$15,250,000 earned during the Three-Month Period, coupled with dividends declared from TTSA reaching HK\$8,228,000, the Group reported operating profit and net profit from continuing operations of HK\$5,803,000 and HK\$4,944,000 respectively during the Three-Month Period.

Despite so, in view of an operating loss of HK\$10,610,000 reported during the first quarter of 2008, the Group incurred an operating loss of HK\$4,807,000 for the Six-Month Period. Nevertheless, taking into account the reversal of income tax provision overprovided in previous years, the Group reported net profit of HK\$8,888,000 from continuing operations during the Six-Month Period.

Salaries remained the major cost component of the Group. With the appreciation of RMB and increasing wages trends in Macao, though stabilised during the Three-Month Period, due to sustained tight human resources, cost control on its overhead and efficient use of human resources will continue to be top priority of the Group going forward.

Subsequent to the decision made during December, 2007 to mark its exit from the business for the distribution of mobile phones in Macao, the Group disposed the Property held by CAOCL at HK\$4,800,000, generating a gain of HK\$2,565,000 on disposal for the Six-Month Period, and on 30th June, 2008, the Group disposed CAOCL at its net book value. Gain from the disposal of the Property and CAOCL resulted in a profit of HK\$1,670,000 reported from discontinued operations for the Group during the Six-Month Period. With the complete retreat from the European investments during 2007, no gain from the disposal of assets carrying negative liabilities was recognised during 2008. Consequently, the Group reported net profit of HK\$10,558,000 for the Six-Month Period, as compared to net profit of HK\$42,760,000 (inclusive of HK\$32,982,000 of profit from discontinued operations) for the same corresponding period last year.

With the disposal of the Property, the balance sheet of the Group as at 30th June, 2008 carried no land and building. As for the investment of TTSA, despite dividends received and declared already exceeded the total investment of the Group in TTSA, book value of the investment in TTSA remained at approximately US\$744,000.

### **Capital Structure and Financial Resources**

The Group continued to have no external borrowings (save and except for normal trade and bills payables). Total cash and cash equivalents (including pledged time deposit) amounted to HK\$85,554,000, with equity base of the Group improved further to stand at HK\$117,930,000.

### **Employees' Information**

As at 30th June, 2008, the Group had 288 employees, of which 103, 11 and 174 employees were based in Macao, Hong Kong and Mainland China respectively. Employee costs totalled HK\$21,107,000.

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

The Company adopted the Scheme whereby 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, 2008, the Group did not have any significant capital commitments and significant investments.

### **Charges on Group Assets**

As at 30th June, 2008, time deposit of approximately HK\$11,635,000 was charged to obtain banking facilities for the issue of performance bonds against certain projects. Save as disclosed, the Group did not have other charges on assets of the Group.

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

On 19th February, 2008, a sale and purchase deed was entered into between CAOCL and José Manuel dos Santos, a Director, relating to the sale of the Property for HK\$4,800,000, which was satisfied by José Manuel dos Santos in cash.

On 30th June, 2008, CAOCL was disposed for a consideration of MOP160,000 (approximately HK\$155,000).

Save as disclosed above, during the Six-Month Period, the Group had no material acquisitions or disposal.

### **Details of Future Plans for Material Investments or Capital Assets**

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

### **Foreign Exchange Exposure**

The Group mainly earns revenue and incurs cost in HK\$, MOP, US\$, and RMB. Except for RMB, the Directors consider that the impact of foreign exchange exposure of the Group is minimal.

## DISCLOSURE OF INTERESTS

### 1. Directors' interests and short positions in Shares, underlying Shares and debentures of the Company or any Associated Corporations

As at 30th June, 2008, the relevant interests and short positions of the Directors or Chief Executive in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which will be required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he took or deemed to have taken under such provisions of the SFO) or required pursuant to section 352 of the SFO, to be entered in the register referred to therein or required, pursuant to rules 5.46 to 5.67 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 (Note (h))	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Corporate interest/founder of a discretionary trust (Note (a))	293,388,000	—	47.80%
	Personal (Note (b))	—	800,000	0.13%
Yim Hong	Personal (Note (c))	7,357,500	800,000	1.33%
Kuan Kin Man	Personal (Note (d))	22,112,500	800,000	3.73%
Monica Maria Nunes	Personal (Note (e))	2,452,500	800,000	0.53%
Lo King Chiu Charles	Personal (Note (f))	—	500,000	0.08%
Fung Kee Yue Roger	Personal (Note (g))	210,000	500,000	0.12%

*Notes:*

- (a) As at 30th June, 2008, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL, a company wholly-owned by José Manuel dos Santos as trustee of the existing trust whereby the family members of José Manuel dos Santos were discretionary objects and which assets included a controlling stake of 47.8% of the issued share capital of the Company.
- (b) The personal interest of José Manuel dos Santos comprised 800,000 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.
- (c) The personal interest of Yim Hong comprised 7,357,500 Shares and 800,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Yim Hong as beneficial owner.
- (d) The personal interest of Kuan Kin Man comprised 22,112,500 Shares and 800,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- (e) The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 800,000 underlying Shares in respect of Options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- (f) The personal interest of Lo King Chiu Charles comprised 500,000 underlying Shares in respect of the Options granted to him by the Company. The aforesaid interest was held by Lo King Chiu Charles as beneficial owner.
- (g) The personal interest of Fung Kee Yue Roger comprised 210,000 Shares and 500,000 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.
- (h) The number of Options held by the Directors outstanding at the beginning of the Six-Month Period was the same as shown above. The Options were granted on 11th July, 2007 and exercisable from 12th July, 2007 to 11th July, 2010 at HK\$0.32 per Share.

## 2. Substantial Shareholders' interests and short positions in the Shares and underlying Shares

The register of Substantial Shareholders required to be kept under section 336 of Part XV of the SFO showed that as at 30th June, 2008, 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 (a))	293,388,000	47.80%
LRL	Corporate interest (Note (a))	293,388,000	47.80%
Lei Hon Kin (Note (b))	Family interest	294,188,000	47.93%

#### Notes:

- (a) As at 30th June, 2008, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL.
- (b) Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

### COMPETING INTERESTS

As at 30th June, 2008, none of the Directors, senior management, or any person who is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power of general meetings of the Company and who is (or are) able, as a practical matter, to direct or influence the management of the Company have any interest in a business, which competes or may compete with the business of the Group.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions of the Code of Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, except that:

1. The sale of the Property to José Manuel dos Santos, a Director, was approved by way of circulation instead of holding a Board meeting.

A.1.8 Since the consideration was arrived at after arm's length negotiations between CAOCL and José Manuel dos Santos by reference to a valuation report of the Property conducted by an independent valuer, and all other Directors agreed with the sale of the Property, the Board considered that a written resolution, which would be valid only when signed by all Directors, reflected the consent from all Directors.

2. The Chairman of the Board did not attend the annual general meeting 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 annual general meeting was held.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted rules 5.48 to 5.67 as the code of conduct regarding Directors' securities transactions.

The Company has made specific enquiry of all Directors that they have complied with the required standard of dealings and its code of conduct regarding Directors' securities transactions.

There is no event of non-compliance with the required standard of dealings.

## **NON COMPLIANCE WITH GEM LISTING RULES 5.05(1), 5.05(2) AND 5.28**

Following the resignation of Chui Sai Cheong on 15th February, 2008 and until the appointment of Wong Tsu Au Patrick on 4th June, 2008, the Company had only two independent non-executive Directors and two members in the Audit Committee which fell below the minimum number of three independent non-executive directors and three members in the Audit Committee as required by the GEM Listing Rules and none of the remaining independent non-executive Directors and remaining members in the Audit Committee had appropriate professional qualifications in the area of accounting or related financial management expertise, as required under the GEM Listing Rules respectively.

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

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

## **DEFINITIONS**

“APC”	automatic passenger clearance
“Associate”	has the meaning ascribed thereto in the GEM Listing Rules
“Associated Corporations”	corporations: <ol style="list-style-type: none"><li>1. which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or</li><li>2. (not being subsidiaries of the Company) in which the Company has an interest in the shares of a class comprised in its share capital exceeding in nominal value one-fifth of the nominal value of the issued share of that class</li></ol>
“Audit Committee”	the audit committee of the Company
“Board”	the board of the Directors
“BVI”	British Virgin Islands
“CAOCL”	Communications Appliances On Chung Limited, incorporated in Macao with limited liability and an indirectly wholly-owned subsidiary of the Company prior to the completion of the sale of its entire equity interest
“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

“Directors”	the directors of the Company
“ERL”	Eve Resources Limited, a company incorporated in BVI with limited liability
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
“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
“HK(IFRIC) – Int”	Hong Kong (IFRIC) Interpretation
“Hong Kong”	the Hong Kong Special Administrative Region of PRC (not applicable to The Stock Exchange of Hong Kong Limited, Hong Kong Accounting Standard and Hong Kong (IFRIC) Interpretation)
“IVR”	interactive voice response
“LRL”	Lois Resources Limited, a company incorporated in BVI with limited liability
“Macao”	the Macao Special Administrative Region of PRC
“Main Board”	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mainland China”	PRC, other than the regions of Hong Kong, Macao and Taiwan
“MDL”	Mega Datatech Limited, incorporated in Macao with limited liability and an indirectly wholly-owned subsidiary of the Company

“MOP”	Patacas, the lawful currency of Macao
“Option”	a right to subscribe for Shares granted pursuant to the Scheme
“PRC”	The People’s Republic of China
“Property”	Rua Ribeira do Patane, n°s 52A-52D, Edifício Cho Cheong, A r/c, Macao
“RMB”	Renminbi, the lawful currency of Mainland 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(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Six-Month Period”	the six months ended 30th June, 2008
“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., a deregistered company incorporated in the Kingdom of the Netherlands with limited liability
“Three-Month Period”	the three months ended 30th June, 2008
“Timor-Leste”	the Democratic Republic of Timor-Leste
“TS-IEMS”	Tidestone Intelligent Environment Monitoring Software
“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 S.A., 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  
**José Manuel dos Santos**  
*Chairman*

Macao, 12th August, 2008

**Executive Directors**

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

**Independent non-executive Directors**

Lo King Chiu Charles  
Fung Kee Yue Roger  
Wong Tsu Au Patrick

\* *for identification purpose only*