



**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**

**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 NINE-MONTH PERIOD**

- Turnover for the Three-Month Period and Nine-Month Period amounted HK\$50,259,000 and HK\$163,167,000 respectively, with gross profit margin for the Three-Month Period reaching 23.39%
- Despite operating loss of HK\$10,602,000 reported for the Nine-Month Period, due to the reversal of tax overprovided, the Group reported net profit from continuing operations of HK\$3,182,000
- Momentum of capital spending of gaming operators hampered by the global financial crisis and the various restrictions that curbed visitors to Macao
- TSTSH continued to receive encouraging results, with contracts secured to install its CNMS at the premises of the telecommunications service providers in the municipality of Chongqing and the province of Anhui
- TSTSH successfully installed the DITS at armed police force locations in the province of Jiangxi
- Completed a number of office networks projects for the Government of Macao and different enterprises
- Dividends of approximately HK\$8,000,000 received from TTSA during the Three-Month Period
- Cash and cash equivalents (including pledged cash deposits) as at 30th September, 2008 amounted approximately HK\$96,360,000, with equity base of the Group standing at HK\$107,940,000
- The Board does not recommend payment of a dividend for the Three-Month Period

### 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, 2007 (Unaudited) HK\$'000	Three months ended 30th September, 2007 (Unaudited) HK\$'000 (restated)	Nine months ended 30th September, 2007 (Unaudited) HK\$'000	Nine months ended 30th September, 2007 (Unaudited) HK\$'000 (restated)
	Note				
<b>Continuing operations</b>					
Revenue		50,259	65,393	163,167	185,683
Cost of sales		(38,502)	(58,527)	(127,531)	(153,771)
<b>Gross profit</b>		<b>11,757</b>	6,866	<b>35,636</b>	31,912
Selling, marketing costs and administrative expenses		(17,552)	(20,359)	(54,469)	(53,520)
Other gains – net		—	905	8,231	4,380
<b>Operating loss</b>		<b>(5,795)</b>	(12,588)	<b>(10,602)</b>	(17,228)
Finance income		260	483	737	1,530
Finance costs		(1)	—	(1)	(6)
Finance income – net		259	483	736	1,524
Share of profit of an associate		81	44	129	132
<b>Loss before income tax</b>		<b>(5,455)</b>	(12,061)	<b>(9,737)</b>	(15,572)
Income tax (expense)/credit	1	(251)	(520)	12,919	12,769
(Loss)/profit for the period from continuing operations		<b>(5,706)</b>	(12,581)	<b>3,182</b>	(2,803)
<b>Discontinued operations</b>	2				
Profit for the period from discontinued operations		—	5,962	1,670	38,944
(Loss)/profit for the period		<b>(5,706)</b>	(6,619)	<b>4,852</b>	36,141
<b>Attributable to:</b>					
Equity holders of the Company		(6,218)	(7,277)	3,997	35,309
Minority interest		512	658	855	832
		<b>(5,706)</b>	(6,619)	<b>4,852</b>	36,141

		Three months ended		Nine months ended	
	Three-Month Period (Unaudited) HK\$'000	30th September, 2007 (Unaudited) HK\$'000 (restated)	Nine-Month Period (Unaudited) HK\$'000	30th September, 2007 (Unaudited) HK\$'000 (restated)	
	Note				
<b>(Loss)/earnings per Share for (loss)/profit from continuing operations attributable to the equity holders of the Company during the period (expressed in HK cents per Share)</b>					
— basic	3(a)	<u>(0.93)</u>	<u>(2.16)</u>	<u>0.38</u>	<u>(0.59)</u>
— diluted	3(b)	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<b>Earnings per Share for profit from discontinued operations attributable to the equity holders of the Company during the period (expressed in HK cents per Share)</b>					
— basic	3(a)	<u>—</u>	<u>0.97</u>	<u>0.27</u>	<u>6.34</u>
— diluted	3(b)	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<b>(Loss)/earnings per Share for (loss)/profit attributable to the equity holders of the Company during the period (expressed in HK cents per Share)</b>					
— basic	3(a)	<u>(0.93)</u>	<u>(1.19)</u>	<u>0.65</u>	<u>5.75</u>
— diluted	3(b)	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
<b>Dividends</b>	4	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes:

1. **Income tax (expense)/credit**

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

2. **Discontinued operations**

TCM, which was presented as a separate segment for provision of multimedia value-added services via interactive voice response, interactive Internet solutions and premium SMS, was deregistered on 18th September, 2007.

In addition, Communications Appliances Ou Chung Limited, incorporated in Macao with limited liability, which was presented as a separate segment of sale of mobile phones, was disposed on 30th June, 2008.

3. **Earnings/(loss) per Share**

(a) **Basic**

Basic earnings/(loss) per Share was calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of Shares in issue during the Nine-Month Period:

	<b>Nine-Month Period</b>	Nine months ended 30th September, 2007 (restated)
<b>Continuing operations</b>		
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	<b>2,327</b>	(3,635)
Weighted average number of Shares in issue (thousands)	<b>613,819</b>	613,819
Basic earnings/(loss) per Share (HK cents)	<b>0.38</b>	(0.59)

	<b>Nine-Month Period</b>	Nine months ended 30th September, 2007 (restated)
<b>Discontinued operations</b>		
Profit attributable to equity holders of the Company (HK\$'000)	<b>1,670</b>	38,944
Weighted average number of Shares in issue (thousands)	<b>613,819</b>	613,819
Basic earnings per Share (HK cents)	<b>0.27</b>	6.34
<b>Total</b>		
Profit attributable to equity holders of the Company (HK\$'000)	<b>3,997</b>	35,309
Weighted average number of Shares in issue (thousands)	<b>613,819</b>	613,819
Basic earnings per Share (HK cents)	<b>0.65</b>	5.75

**(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 Nine-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/(loss) per Share for the Nine-Month Period and for the nine months ended 30th September, 2007 was presented as the exercise of the outstanding Options would have an anti-dilutive effect.

**4. Dividends**

The Directors did not recommend the payment of an interim dividend for the Nine-month Period (nine months ended 30th September, 2007: Nil).

## 5. Reserves

	Contributed surplus	Other reserve	Capital redemption reserve	Available-for-sale investment reserve	Merger reserve	Translation reserve	Statutory reserve	Total	Accumulated losses
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance as at 1st January, 2007</b>	—	—	702	(11,536)	35,549	(416)	49	24,348	(149,442)
Revaluation	—	—	—	7,818	—	—	—	7,818	—
Reserves transferred to income statement upon deregistration of TCM	—	—	—	—	—	2,496	—	2,496	—
Currency translation differences	—	—	—	—	—	(274)	—	(274)	—
Reduction of share premium credited to contributed surplus	97,676	—	—	—	—	—	—	97,676	—
Share-based compensation	—	2,289	—	—	—	—	—	2,289	—
Profit for the nine months ended 30th September, 2007	—	—	—	—	—	—	—	—	35,309
<b>Balance as at 30th September, 2007</b>	<u>97,676</u>	<u>2,289</u>	<u>702</u>	<u>(3,718)</u>	<u>35,549</u>	<u>1,806</u>	<u>49</u>	<u>134,353</u>	<u>(114,133)</u>
<b>Balance as at 1st January, 2008</b>	97,676	2,289	702	(918)	35,549	1,371	49	136,718	(93,377)
Revaluation	—	—	—	(10,215)	—	—	—	(10,215)	—
Currency translation differences	—	—	—	—	—	1,849	—	1,849	—
Profit for the Nine-Month Period	—	—	—	—	—	—	—	—	3,997
<b>Balance as at 30th September, 2008</b>	<u>97,676</u>	<u>2,289</u>	<u>702</u>	<u>(11,133)</u>	<u>35,549</u>	<u>3,220</u>	<u>49</u>	<u>128,352</u>	<u>(89,380)</u>



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF BUSINESS ACTIVITIES**

#### **Mainland China**

With the prospects of network infrastructure in the product domain that the Group used to operate in remained on a declining trend, the Group continued to focus on the provision of NMS and support services, and in the research and development of different value-added solutions for telecommunications service providers. During the Three-Month Period, TSTSH continued to secure a number of new projects to install different modules of its NMS at the premises of different telecommunications service providers, including an expansion project to install the Integrated Fault Management and CNMS at the premises of a telecommunications service provider in the municipality of Chongqing, and a new contract to install the CNMS at a telecommunications service provider in the province of Anhui. During the Three-Month Period, TSTSH also successfully installed its new module, named DITS, which is developed over its TS-IEMS at armed police force locations. DITS allows safety management and computerises the monitoring of assigned duties, providing reliable support to jail security, including 1. alerts upon emergency and unusual circumstances, for example prison break, and 2. real-time monitoring and capturing of images. Building from TS-IEMS, DITS further enhances the functionalities of TS-IEMS, allowing TS-IEMS to be used for automatic real-time environmental monitoring and management in extra low voltage rooms, office and warehouse.

In addition to the research and development of different modules to enhance the completeness of the NMS of TSTSH, the Group is also actively in the process of developing different value-added software solutions for use in the mobile domain so as to capture opportunities arose from China Telecom operating mobile services and in preparation of the issue of the 3G licence.

#### **Macao**

In view of the global financial crisis and the various restrictions to curb visitors to Macao, during the Three-Month Period, the Group witnessed a change to the momentum of capital spending of gaming operators. Consequently, the Group expects that work on the orders on hand secured from different gaming operators, which amounted to approximately HK\$50,000,000, to commence during 2009.

The Government of Macao continued to upgrade and enhance the back-end and front-end systems so as to improve the effectiveness and efficiency of services offered by different departments to the general public. During the Three-Month Period, the Group completed various projects for the Government of Macao, including a contract to upgrade the storage system and a contract to install a network redundancy solution for the police bureau. During the same period, the Group also successfully provided office networks and equipment solutions to enterprises in Macao, including a hospital and an educational institution.

In view of the implications of the global financial crisis on the operating environment of the gaming and hospitality industry in Macao, in the upcoming periods, the Group will continue to gear its efforts towards developing customised solutions for different departments of the Government of Macao, with focus on developing management systems that can improve efficiency of the services that the Government of Macao offers to the general public.

### **International Investments**

During the Three-Month Period, the Group received its second dividend payment from TTSA, amounted approximately HK\$8,000,000. With the receipt of this dividend payment, investment in TTSA that the Group put in has been fully recovered.

## **REVIEW OF OPERATING RESULTS**

### **Turnover and Profitability**

During the Three-Month Period, due to the impact of the financial crisis on the momentum of capital spending of gaming operators and a continued swift from the provision of hardware to provision of software and service-oriented solutions, the Group reported turnover of HK\$50,259,000 and HK\$163,167,000 for the Three-Month Period and Nine-Month Period respectively, representing a decrease of 23.14% and 12.13% over the respective corresponding period last year. Nevertheless, with effort geared towards higher margin solutions, gross profit margin reached 23.39% for the Three-Month Period. Overall gross profit margin improved to 21.84% for the Nine-Month Period, as compared to 17.19% for the same corresponding period last year.

Attributable to different factors affecting the level of turnover registered during the Three-Month Period, the Group incurred an operating loss of HK\$5,795,000 for the Three-Month Period. Nevertheless, operating loss for the Nine-Month Period narrowed from HK\$17,228,000 for the same corresponding period last year to HK\$10,602,000. With salaries as the major cost component of the Group, accounting for approximately 65% of the cost structure, cost control over salaries and staff welfare and efficient use of human resources will continue to be a top priority of the Group.

Despite an operating loss of HK\$10,602,000 for the Nine-Month Period, with a debt-free capital structure, hence minimal finance costs, and taking into account the reversal of income tax provision overprovided in earlier years, the Group continued to report net profit of HK\$3,182,000 from continuing operations for the Nine-Month Period.

### **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 cash deposits) as at 30th September, 2008 amounted approximately HK\$96,360,000, with equity base of the Group standing at HK\$107,940,000.

## 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 September, 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 September, 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 the 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 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 Nine-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 September, 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 are in addition to those disclosed above in respect of the Directors and Chief Executive:

### **Aggregate long positions in the Shares**

<b>Name</b>	<b>Nature of interest</b>	<b>Number of Shares held</b>	<b>Approximate % of the issued share capital of the Company</b>
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 September, 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 September, 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 at 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.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem 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;  1. which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or  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 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
“CNMS”	customer network management system
“Company”	Vodatel Networks Holdings Limited

“Directors”	the directors of the Company
“DITS”	Duty Informatisation Trail System
“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
“Hong Kong”	the Hong Kong Special Administrative Region of 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 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 exclude GEM

“Mainland China”	PRC, other than the regions of Hong Kong, Macao and Taiwan
“Nine-Month Period”	nine months ended 30th September, 2008
“NMS”	network management system
“Option”	a right to subscribe for Shares granted pursuant to the share option scheme approved by the holders of the Shares at a special general meeting on 5th November, 2002
“PRC”	The People’s Republic of China
“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
“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”	three months ended 30th September, 2008
“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 the Democratic Republic of Timor-Leste with limited liability

By order of the Board  
**José Manuel dos Santos**  
*Chairman*

Macao, 12th November, 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 An Patrick