



**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**

**2006**

\* for identification purpose only

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**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**

### **HIGHLIGHTS**

- Turnover for the Nine-Month Period reached HK\$368,067,000, representing an increase of 12.68% over the preceding period
- Improvement to the core business with the segment of construction of infrastructure in Mainland China and Macao, bringing in approximately HK\$3,200,000 of operating profit to the Group during the Nine-Month Period
- Due to the negative results of TCM, loss of the Group for the Nine-Month Period amounted to HK\$29,969,000
- Construction of data networking infrastructure for telecommunications service providers in Mainland China took a positive upswing with over HK\$45,000,000 worth of contracts secured during the Three-Month Period
- The OSS of TSTSH continued to receive good response with over HK\$7,500,000 worth of expansion contracts awarded by Xinjiang China Telecom and Chongqing China Telecom
- Continued to explore the potential in the business arena of the resources management application with China Telecom under the BizNavigator programme
- The Board passed the resolution to retreat from the European investments
- The Board does not recommend payment of a dividend for the Nine-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:

		Unaudited			
		Three months ended 30th September, 2005	Nine-Month Period	Nine months ended 30th September, 2005	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Continuing operations</b>					
Sales		104,819	153,161	368,067	326,658
Cost of sales		(91,514)	(137,402)	(313,631)	(277,836)
<b>Gross profit</b>		<b>13,305</b>	<b>15,759</b>	<b>54,436</b>	<b>48,822</b>
Other gains – net		—	1,568	3,529	8,632
Selling, marketing costs and administrative expenses		(24,958)	(26,541)	(73,876)	(78,082)
<b>Operating loss</b>		<b>(11,653)</b>	<b>(9,214)</b>	<b>(15,911)</b>	<b>(20,628)</b>
Impairment of goodwill		—	—	(30,346)	—
Finance costs		(366)	(1,976)	(1,604)	(5,449)
Share of profits/(losses) of associates		101	(470)	152	(1,098)
<b>Loss before income tax</b>		<b>(11,918)</b>	<b>(11,660)</b>	<b>(47,709)</b>	<b>(27,175)</b>
Income tax	1	(1,393)	(134)	11,801	(134)
<b>Loss from continuing operations</b>		<b>(13,311)</b>	<b>(11,794)</b>	<b>(35,908)</b>	<b>(27,309)</b>
<b>Discontinued operation</b>	2	<b>—</b>	<b>(2,312)</b>	<b>5,939</b>	<b>(9,975)</b>
<b>Loss for the period</b>		<b>(13,311)</b>	<b>(14,106)</b>	<b>(29,969)</b>	<b>(37,284)</b>
<b>Attributable to:</b>					
Equity holders of the Company		(12,735)	(12,164)	(30,573)	(31,605)
Minority interests		(576)	(1,942)	604	(5,679)
		<b>(13,311)</b>	<b>(14,106)</b>	<b>(29,969)</b>	<b>(37,284)</b>
<b>Loss per Share for loss attributable to the equity holders of the Company during the period (HK cents)</b>	3				
– basic		(2.07)	(1.98)	(4.98)	(5.15)
– diluted		Not applicable	Not applicable	Not applicable	Not applicable
<b>Dividends</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

**Notes:****1. Income tax**

Hong Kong profits tax was provided at the rate of 17.5% (nine months ended 30th September, 2006: 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 operation**

The sale and purchase agreement entered into between Vodatel Holdings Limited (incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company), MAXPROFIT GLOBAL INC (a company incorporated in BVI with limited liability), the Company and Sun Ho relating to the sale of 61.05% of the issued share capital of MIHL, for an aggregate of HK\$10,378,500 was completed on 13th June, 2006.

**3. Loss per Share****Basic**

Basic loss per Share was calculated by dividing the 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>	<b>Nine months ended 30th September, 2005</b>
Loss attributable to equity holders of the Company (HK\$'000)	<b>(30,573)</b>	(31,605)
Weighted average number of Shares in issue (thousands)	<b>613,819</b>	613,819
Basic loss per Share (HK cents)	<b>(4.98)</b>	(5.15)

Loss per Share attributable to equity holders of the Company arose from continuing and discontinued operations as follows:

	<b>Nine-Month Period</b>	<b>Nine months ended 30th September, 2005</b>
Loss per Share for loss from continuing operations attributable to the equity holders of the Company		
– basic (HK cents)	<b>(5.95)</b>	(3.52)
Earnings/(loss) per Share for profit/(loss) from discontinued operation attributable to the equity holders of the Company		
– basic (HK cents)	<b>0.97</b>	(1.63)

#### **Diluted**

No diluted loss per Share for the Nine-Month Period was presented as there were no options, warrants or other convertible instruments in issue. No diluted loss per Share for the nine months ended 30th September, 2005 was presented as the exercise of the outstanding share options of the Company would have an anti-dilutive effect.

#### 4. Reserves

	Capital redemption reserve HK\$'000	Available- for-sale investment reserve HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Statutory reserve HK\$'000	Total HK\$'000	Accumulated losses HK\$'000
Balance as at 1st January, 2006	702	(7,526)	35,549	248	49	29,022	(65,348)
Revaluation	—	(7,565)	—	—	—	(7,565)	—
Currency translation differences	—	—	—	83	—	83	—
Loss for the Nine-Month Period	—	—	—	—	—	—	(30,573)
Balance as at 30th September, 2006	702	(15,091)	35,549	331	49	21,540	(95,921)

  

	Capital redemption reserve HK\$'000	Available- for-sale investment reserve HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Statutory reserve HK\$'000	Total HK\$'000	Accumulated losses HK\$'000
Balance as at 1st January, 2005	702	5,315	35,549	3,034	49	44,649	(30,994)
Opening adjustment for the adoption of Hong Kong Accounting Standard 39 Financial Instruments: Recognition and Measurement	—	(2,007)	—	—	—	(2,007)	3,134
Balance as at 1st January, 2005, as restated	702	3,308	35,549	3,034	49	42,642	(27,860)
Revaluation	—	69	—	—	—	69	—
Currency translation differences	—	—	—	(2,038)	—	(2,038)	—
Loss for the nine months ended 30th September, 2005	—	—	—	—	—	—	(31,605)
Balance as at 30th September, 2005	702	3,377	35,549	996	49	40,673	(59,465)

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations in Mainland China

During the Three-Month Period, business prospects of the traditional business of the Group – the construction of data networking infrastructure for telecommunications service providers in Mainland China took a positive upswing, with over HK\$45,000,000 worth of contracts secured during the period. Major contracts awarded included expansion contracts from Guangdong China Telecom, Shanghai China Telecom, Shenzhen China Telecom, Suzhou China Telecom, Dalian China Telecom and Guangxi China Telecom. Although the market characteristics have reshaped over the years and are now different from what the Group used to previously operate, the Group has been successful in adopting these new market parameters and is positive that the Group will gradually recover grounds in the area of construction of data networking infrastructure in Mainland China.

In Mainland China, the OSS of TSTSH continued to receive positive response with expansion contracts totaling over HK\$7,500,000 secured from Xinjiang China Telecom and Chongqing China Telecom for the Integrated Fault Management System and internet protocol-based network management system respectively, the former module of which provides rapid fault orientation that allows telecommunications service providers to reduce fault period, increase customer service quality and enjoy stable technique support, and the latter of which helps to improve the efficiency and effectiveness of telecommunications service providers when managing the various data networks. TSTSH is in particular encouraged by the expansion contract for the Integrated Fault Management System as the contract won not only signifies the increasing acceptance of the solutions of TSTSH, but the market acknowledgement of the capability and availability of strong fault management features of the OSS developed by TSTSH.

During the Three-Month Period, the Group continued to work with China Telecom at different locations on a trial programme to roll out a resources management application that offers value-added services in the areas of sales, inventory and production management under the BizNavigator programme. Currently, the Group is in the process of improving the features and functionalities of the application to better customise the needs of small and medium enterprises and the stability and connectivity to the telecommunications platforms of China Telecom. Concurrently, the Group is active in the promotion of the application to local telecommunications service providers in the provinces of Guangdong, Hubei, Hunan, Zhejiang and Liaoning and the municipality of Chongqing so as to better ascertain the potential and prospects of such resources management application in the market.



## **Operations in Macao**

During the Three-Month Period, the Group focused principally on the completion of the installation of surveillance systems and radio trunking systems for various gaming and hotel operators secured during the previous quarters. While a number of major gaming venues commenced operations, the local market is expected to continue to be boosted by the opening up of flagships by new gaming operators and by existing gaming operators expanding their current premises and erecting new venues at strategic locations. Consequently, the Group has continued to aggressively market the systems in structured cabling, surveillance, data networking, radio trunking and other solutions to existing and new gaming and hotel operators.

## **International Operations**

As a means to refocus the core business and in selected markets, the Group conducted a thorough review of the operations and financial performance of TCM during the Three-Month Period. Business prospects of TCM remained encouraging, in particular Servicios Telefónicos de Audiotex, Sociedad Anónima (incorporated in the Kingdom of Spain with limited liability and an indirectly owned subsidiary of the Company) with the rolling out of applications, such as Tarot, Call&Win, tone related services, etc., via interactive voice response or short message services with the national TV stations, and TeleConcept Multimedia B.V. (incorporated in the Netherlands with limited liability and an indirectly owned subsidiary of the Company) with the rolling out of lottery services with a local service provider. Nevertheless, despite extension of financial support to TCM since acquisition by the Group during July, 2004, TCM has been unable to create sufficient critical mass that translates to operating profit and positive cashflow, thus putting burden on the financial standing of the Group. Consequently, the Board passed a resolution during the Three-Month Period to retreat from the investment in Europe and the Group is currently in the process of disposing the European operations, and if necessary, possibly seek voluntary winding down or liquidation of the European operations.

## **Turnover and Profitability**

During the Three-Month Period, with installation of some major projects secured during the previous quarters still underway, sales amounted to HK\$104,819,000 representing a decrease of 31.56% over the corresponding period. Nevertheless, due to a stronger six-month period ended 30th June, 2006, sales for the Nine-Month Period reached HK\$368,067,000 representing an increase of 12.68% over the preceding period of HK\$326,658,000. Gross profit margin for the Three-Month Period showed an improvement to reach 12.69%, as compared to 10.29% for the preceding period. For the Nine-Month Period, gross profit margin leveled at approximately 14.79%.

Due to installation of some major projects were still underway, turnover in relation to installation and service charges were not recognised during the Three-Month Period, thus translating to a lower turnover and operating loss. Coupled with the negative results of TCM, the Group reported net loss of HK\$13,311,000 for the Three-Month Period.

With improvement to the core business, the segment of construction of infrastructure in Mainland China and Macao brought in approximately HK\$3,200,000 of operating profit to the Group during the Nine-Month Period. Together with the reversal of taxes over-provided during previous years and gain from the disposal of MIHL, the Group, excluding European operations, reported net profit of HK\$12,592,000 for the Nine-Month Period.

Despite improved performance of the core business in Mainland China and Macao, hampered by the operating losses experienced by TCM and the impairment of goodwill of TCM of HK\$30,346,000 made during the six-month period ended 30th June, 2006, the Group registered net loss of HK\$29,969,000 for the Nine-Month Period.

### **Capital Structure, Liquidity and Financial Resources**

The Group continued to maintain a healthy capital structure with cash on hand exceeding HK\$90,000,000 (or approximately HK\$128,900,000 should the yield-enhanced financial bond was included). Prudent cash management remained the practice of the Group.

Total borrowings of the Group amounted to HK\$36,780,000, translating to an improved gearing ratio (total borrowings/total equity) of 40.19%.

### **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 purchased or sold any of the Shares during the Nine-Month Period.

## 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, 2006, 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 would 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 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 positions in the Shares

Name of Director	Nature of interest	Number of Shares held	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%
Yim Hong	Personal (Note (b))	7,357,500	1.20%
Kuan Kin Man	Personal (Note (c))	12,262,500	2.00%
Monica Maria Nunes	Personal (Note (d))	2,452,500	0.40%
Fung Kee Yue Roger	Personal (Note (e))	210,000	0.03%

Notes:

- (a) As at 30th September, 2006, 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 included a controlling stake of 47.8% of the issued share capital of the Company.
- (b) The personal interest of Yim Hong comprised 7,357,500 Shares. The aforesaid interest was held by Yim Hong as beneficial owner.

- (c) The personal interest of Kuan Kin Man comprised 12,262,500 Shares. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- (d) The personal interest of Monica Maria Nunes comprised 2,452,500 Shares. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- (e) 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.

## 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, 2006, the Company was notified of the following Substantial Shareholders' interests. These interests were 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	293,388,000	47.80%

Notes:

- (a) As at 30th September, 2006, 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, 2006, none of the Directors or any person who was (or group of persons who together were) entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Group and which was (or were) able as a practical matter, to direct or influence the management of the Company, had an interest in a business, which competed or might compete with the business of the Group.

## DEFINITIONS

“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 shares of that class</li></ol>
“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) by the Chief Secretary for Administration 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 Hong Kong Accounting Standard and The Stock Exchange of Hong Kong Limited)
“LRL”	Lois Resources Limited, a company incorporated in BVI with limited liability
“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”	the PRC, other than the regions of Hong Kong, Macao and Taiwan
“Macao”	the Macao Special Administrative Region of the PRC

“MIHL”	MegalInfo Holdings Limited, incorporated in Bermuda with limited liability and whose shares of HK\$0.01 each in its capital are listed on GEM
“Nine-Month Period”	the nine months ended 30th September, 2006
“OSS”	Operation Support System
“PRC”	The People’s Republic of China
“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
“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, and its subsidiaries
“The Netherlands”	The Kingdom of the Netherlands
“Three-Month Period”	the three months ended 30th September, 2006
“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

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

Macao, 14th November, 2006

**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