



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司

(incorporated in Bermuda with limited liability)

THIRD QUARTER REPORT

2001

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This document, for which the directors of Vodatel Networks Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Vodatel Networks Holdings Limited. 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.

HIGHLIGHTS

- ¥ Achieved a net profit of HK\$13.2 million and HK\$49.1 for the three months and nine months ended 31st March, 2001 respectively. This represented a net profit margin of 10.0% and 12.4%. Overall profit margin has been weakened as a result of taking up IP projects, which carried lower margins.
- ¥ Continued to receive strong orders from China Telecom at both provincial and municipal levels to construct, expand and integrate their Digital Data Networks and Frame Relay/ATM networks.
- ¥ Registered another success in the broadband IP Metropolitan network market by being awarded the HK\$35.8 million contract from Jilin China Telecom Corporation.
- ¥ LG TOPS continued to secure contracts to supply CDMA Wireless Local Loop systems and terminals to China Telecom.
- ¥ Vodatel Crossland successfully secured a contract from Bank of America (Asia) Ltd. to install vcBook, the self-developed access device, in selected branches in Hong Kong for retail investors to initiate stock trading.

THIRD QUARTER RESULTS

On behalf of the Board of the Directors (the Directors) of Vodatel Networks Holdings Limited (the Company), I am pleased to present the operating results of the Company and its subsidiaries (collectively, the Group) for the three months (Three-Month Period) and nine months (Nine-Month Period) ended 31st March, 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	Three months ended 31st March 2001		Nine months ended 31st March 2001		
	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	
	<i>Note</i>				
Design and implementation of data networking systems and provision of related engineering services		116,725	93,213	346,437	258,997
Sale of goods		15,242	21,440	47,983	64,588
Total turnover		131,967	114,653	394,420	323,585
Gross profit		28,979	30,833	98,170	88,680
Share of results of associates		(639)		(1,323)	
Operating profit before taxation		15,716	22,014	58,238	57,415
Taxation	2	2,475	3,467	9,172	9,043
Profit for the period		13,241	18,547	49,066	48,372
Earnings per share (HK cents)	3				
Basic		2.2	3.4	8.0	9.5
Diluted		2.2	3.4	8.0	9.5

Notes:

1. Basis of preparation

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). In preparation for the listing of the Company's shares on GEM, a group reorganisation was effected whereby the Company became the holding company of the Group. The shares of the Company were listed on GEM on 25th February, 2000.

The combined results have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

The combined results of the Group have been prepared as if the current group structure had been in existence throughout the periods under review or since their respective dates of incorporation where this is a shorter period.

All significant intra-group transactions and balances have been eliminated on combination.

2. Taxation

The taxation charge comprises: -

	Three months ended		Nine months ended	
	31st March		31st March	
	2001	2000	2001	2000
	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000
Hong Kong profits tax				
Macau complimentary profits tax	2,475	3,467	9,172	9,043
	<u>2,475</u>	<u>3,467</u>	<u>9,172</u>	<u>9,043</u>
	<u><u>2,475</u></u>	<u><u>3,467</u></u>	<u><u>9,172</u></u>	<u><u>9,043</u></u>

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any estimated assessable Hong Kong profits for the periods under review.

Macau complimentary profits tax has been calculated at 15.75% on the estimated assessable profits of Group Companies operating in Macau for the periods under review.

3. Earnings per share

The calculation of the Group's basic earnings per share for three months and nine months ended 31st March, 2001 is based on the Group's profit attributable to shareholders of approximately HK\$13.2 million and HK\$49.1 million (three months and nine months ended 31st March, 2000: approximately HK\$18.5 million and HK\$48.4 million) and the weighted average number of approximately 612,879,000 ordinary shares and 612,879,000 ordinary shares (three months and nine months ended 31st March, 2000: approximately 506,798,000 ordinary shares and 539,753,000 ordinary shares) respectively in issue during the respective periods. In determining the weighted average number of shares, a total of approximately 2,000,000 shares issued on the establishment of the Company and reorganisation of the Group and a further 488,500,000 shares being the capitalisation issue immediately following the new issue of shares to the public were deemed to have been issued since 1st July, 1999.

There is no diluted earnings per share for the Three-Month Period since the Company has no potential dilution of earnings per share during the periods.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2001 (2000: Nil).

BUSINESS REVIEW

Data Network Infrastructure

Despite the challenges facing networking equipment suppliers as the result of the global slowdown in demand, China continued to uphold its strong domestic growth in its telecommunication sector. We have continued to harvest from our continuous focus on selling Digital Data Networks (DDN) and broadband data networks (Frame Relay and ATM) to China Telecom in the PRC at both provincial and municipal levels. During the Three-Month Period, we are proud to extend our customer base from 13 to 15 provinces, municipalities and autonomous regions to include Tianjin City and Shanxi Province. During the same period, we have completed shipments of the HK\$9.5 million DDN and Frame Relay/ATM network expansion contract awarded by Shanghai China Telecom Corporation, the HK\$14.8 million DDN expansion contract awarded by Tianjin China Telecom Corporation and the HK\$8.1 million DDN expansion contract awarded by Shanxi China Telecom Corporation. Other new projects secured during the Three-Month Period included the HK\$11.0 million integrated DDN and Frame Relay/ATM network contract from Qingdao China Telecom Corporation and the HK\$11.5 million contract by Guangdong China Telecom Corporation, which is the replenishment of the HK\$138.6 million awarded to the Company earlier last year to expand and to integrate Guangdong s DDN and Frame Relay/ATM networks to form the country s largest integrated network.

In the IP arena, during the Three-Month Period, we have completed shipment of the HK\$33.5 million contract awarded by Jiaxiang China Telecom Corporation in the Zhejiang Province to construct their IP infrastructure our first large-scale broadband IP Metropolitan networks secured during November 2000. Capitalizing on the increasing demand for broadband IP Metropolitan networks to support the rapid growth of internet and the emerging wave of e-commerce in the PRC, we have continued to undertake aggressive marketing to our carrier customers. We are proud to register another success by being awarded the HK\$35.8 million contract by Jilin China Telecom Corporation to construct Jilin s provincial broadband IP Metropolitan network, which will span over 9 cities including the major cities such as Jilin and Changchun.

Self-developed Products

Subsequent to our success in the promotion of Vodalmage to the mobile bureaus in Zhongshan, Zhuhai, Shantou and Shenzhen in the Guangdong Province, promotion of this internally developed imaging solution application has been extended to other mobile bureaus in other provinces. In addition, we will continue to identify reputable resellers as distributors of Vodalmage to strengthen its marketing channel.

Strategic Alliances

E-Commerce To complement the Company's business in the construction of broadband IP Metropolitan network for our carrier customers, during the Three-Month Period, Vodatel Crossland has been concentrating on the development of a network management system, which will allow telecommunication bureaus to efficiently manage a variety of network traffic running over the IP infrastructure. Beta version is expected to be completed and ready for trial run in June 2001.

Marketing of various value-added applications deployed from the versatile New Economy Trading Platform (NETP), internally developed by Vodatel Crossland, to telecommunication bureaus, governmental authorities and enterprises has also continued. During the Three-Month Period, Vodatel Crossland has been awarded a contract by Bank of America (Asia) Ltd. to install vcBook, the self-developed access device, in selected branches in Hong Kong, allowing retail investors to easily and economically initiate stock trading at their own accord. vcBook is one of access devices developed by Vodatel Crossland to complement the self-developed stock-trading platform, namely vcShare, for brokers to connect them to the Third Generation Automatic Matching System of the Stock Exchange of Hong Kong.

Wireless Communications In respect to our joint venture, Guangzhou LG-TOPS Communications Technologies Co. Ltd. (LG TOPS), during the Three-Month Period, LG TOPS has continued to sell CDMA Wireless Local Loop systems and terminals to China Telecom. In addition, as part of future business expansion, LG TOPS is undertaking market study of xDSL equipment and access.

FINANCIAL REVIEW

Turnover for the Three-Month Period and Nine-Month Period ended 31st March, 2001 registered a satisfactory growth of 15.1% and 21.9% respectively as compared to the corresponding periods ended 31st March, 2000. However, as a result of the nature of IP projects, which carried lower margins as compared to our traditional business in the construction of DDN, Frame Relay and ATM networks, gross profit dropped from 26.9% to 22.0%. Coupled with an increase in staff costs as a result of hiring new engineers to strengthen our pre-marketing sales team and our technical team and the global slowdown in the development of e-business, which adversely affected the promotion of the e-commerce solutions developed by Vodatel Crossland, net profit declined from HK\$18.5 million to HK\$13.2 million. Net profit for the Nine-Month Period climbed a modest 1.4% to reach HK\$49.1 million. As at 31st March, 2001 and 10th May, 2001, orders on hand amounted to approximately HK\$146 million and HK\$135 million respectively.

The financial position of the Company remained healthy with neither short-term nor long-term debt. Cash balance stood comfortably at HK\$225 million as at 31st March, 2001, with total export letters of credit of approximately HK\$33 million presented to banks for collection. During the Three-Month Period, to assure investors confidence and to enhance earnings per share, the Company exercised its repurchase mandate and bought back 6,746,000 shares, representing approximately 1.1% of our initial issued share capital of 615,000,000 shares. Subsequent to the share repurchase exercise, cash per share amounted to HK\$0.37.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 31st March, 2001, the interests of the Directors and their associates in the share capital of the Company and its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the SDI Ordinance) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Name of Directors	Number of Shares	Nature of Interest
Jos Manuel dos Santos	293,388,000	Trust (<i>Note</i>)
Yim Hong	7,357,500	Personal
Kuan Kin Man	12,262,500	Personal
Ho Kwok Hung	706,000	Personal
Monica Maria Nunes	2,452,000	Personal

Note: The 293,388,000 shares are owned by Eve Resources Limited, which is in turn held by a company wholly-owned by Mr. Santos, the Chairman of the Company, as trustee of a discretionary family trust.

Under a share option scheme approved by the shareholders of the Company, the board of directors of the Company may, at its discretion, grant options to eligible employees of the group, including executive directors, to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued share capital of the Company from time to time.

On 16th August, 2000, share options to subscribe for 1,450,000 and 4,466,000 shares were respectively granted to certain directors of the Company and certain employees of the group. Details of the share options which have been granted to the directors of the Company as at 16th August, 2000 are as follows:

	Number of Shares Options
Mr. Jos Manuel dos Santos	290,000
Mr. Yim Hong	290,000
Mr. Kuan Kin Man	290,000
Ms. Monica Maria Nunes	290,000
Mr. Ho Kwok Hung	290,000
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	1,450,000
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The exercise price of the above share options is HK\$1.19 and the exercisable period is from 16th August, 2000 to 15th August, 2003.

As at 31st March, 2001, none of the options being granted to the directors have been exercised or cancelled. Save as disclosed above, none of the Directors or their associates had any interests in the share capital of the Company or its associated corporations (as defined in the SDI Ordinance).

The interests of the management shareholders (as defined in the Rules Governing the Listing of Securities on GEM (the GEM Listing Rules)) in the share capital of the Company are the same as disclosed above.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the periods under review was the Company or its subsidiaries a party to any arrangements to enable the Directors (including their spouses or children under 18 years of age) or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, the register of substantial shareholders maintained under Sections 16(1) of the SDI Ordinance shows that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital.

Name of Shareholder	Number of Shares
Eve Resources Limited	293,388,000

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

The Company's sponsor, Core Pacific - Yamaichi Capital Limited (Core Pacific - Yamaichi), its directors, employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules), were interested in 2,608,000 shares and 2,608,000 shares of HK\$0.10 each in the share capital of the Company as at 31st March, 2001 and 10th May, 2001 respectively.

Pursuant to the agreement dated 16th February, 2000 entered into between the Company and Core Pacific - Yamaichi, Core Pacific - Yamaichi has received and will receive a fee for acting as the Company's retained sponsor for the period from 16th February, 2000 to 30th June 2002.

AUDIT COMMITTEE

The Company established an audit committee on 10th February, 2000 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee has three members comprising Mr. Jos Manuel dos Santos, Chairman, and the two independent non-executive Directors, Mr. Chui Sai Cheong and Mr. Lo King Chiu, Charles.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Three-Month and the Nine-Month Period ended 31st March, 2001, the Company repurchased on the Stock Exchange a total of 6,746,000 ordinary shares of HK\$0.10 each in the share capital of the Company at an aggregate price of HK\$6,235,154.61, details of which are as follows:

Month of Repurchase	No. of Shares Repurchased	Price per Share		Aggregate Price Paid HK\$
		Highest HK\$	Lowest HK\$	
February 2001	2,850,000	0.99	0.88	2,769,773.92
March 2001	3,896,000	0.96	0.81	3,465,380.69
	<u>6,746,000</u>			<u>6,235,154.61</u>

The Directors of the Company considered that the above repurchases were made with a view to enhance the net asset and earnings per share of the Company. These shares were cancelled upon repurchase and the issued share capital of the Company was correspondingly reduced.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Nine-Month Period ended March 31, 2001.

By order of the Board
Vodatel Networks Holdings Limited
José Manuel dos Santos
Chairman

Hong Kong, 10th May, 2001