



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司

(incorporated in Bermuda with limited liability)

FIRST QUARTER REPORT

2003

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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 further 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.

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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 FOR THE THREE-MONTH PERIOD

Highlights

- Turnover amounted to HK\$86.9 million, with net profit at HK\$5.7 million for the three months ended 30th September, 2002
- With contracts awarded by Anhui China Telecom and Heilongjiang China Telecom, successfully expanded our customer base from 18 to 20 provinces, municipalities and autonomous regions in China
- Orders on hand as at 30th September, 2002 amounted to over HK\$135.0 million
- Signed an agreement with Guangdong China Mobile to promote MTel's data compression, acceleration and reformatting software engine platform

FIRST QUARTER RESULTS

On behalf of the Board of the Directors (the "Board") 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") ended 30th September, 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	Note	Three months ended 30th September,	
		2002 HK\$'000	2001 HK\$'000
Turnover	3	86,893	210,959
Cost of sales		(63,967)	(160,838)
Gross profit		22,926	50,121
Other revenue		705	1,991
Selling and administrative expenses		(16,681)	(20,318)
Profit from operations		6,950	31,794
Finance cost		(130)	—
Share of results of associates		(275)	(87)
Profit before tax		6,545	31,707
Taxation	4	(1,032)	(4,994)
Profit after tax		5,513	26,713
Minority interest		186	288
Net Profit for the period		5,699	27,001
Dividends		—	—
Profit retained for the period		5,699	27,001
Earnings per share (HK cents)	5		
— Basic		0.9	4.4
— Diluted		1.0	4.4

UNAUDITED STATEMENT OF CHANGES IN RESERVES

Movements in reserves of the Vodatel Group during the Three-Month Period are as follows:

	Three months ended 30th September, 2002						
	Share premium	Capital redemption reserve	Investment revaluation reserve	Exchange reserve	Retained earnings	Merger reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July, 2002	86,590	702	(2,372)	(10)	147,779	35,549	268,238
Profit for the period retained	—	—	—	—	5,699	—	5,699
Translation of financial statements of PRC operations	—	—	—	(14)	—	—	(14)
At 30th September, 2002	<u>86,590</u>	<u>702</u>	<u>(2,372)</u>	<u>(24)</u>	<u>153,478</u>	<u>35,549</u>	<u>273,923</u>

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.

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

2. Principal Accounting Policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30th June, 2002.

3. Turnover

The group is principally engaged in the design, sale and implementation of data networking systems and provision of related engineering services, and sale of goods. Turnover recognized during the period is as follows:

	Three months ended 30th September,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Design and implementation of data networking systems and provision of related engineering services	67,207	186,547
Sale of goods	19,686	24,412
	<hr/>	<hr/>
Total turnover	<u>86,893</u>	<u>210,959</u>

4. Taxation

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 period under review.

Macau complimentary profits tax has been calculated at 15.75% on the estimated assessable profits of Group Companies operating in Macau. The taxation charge comprises:

The amount of taxation charged to the consolidated Income Statements represent:

	Three months ended 30th September,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	—	—
Macau complimentary profits tax	1,032	4,994
	<hr/>	<hr/>
	<u>1,032</u>	<u>4,994</u>

There was no material unprovided deferred taxation for the period (2001: Nil).

5. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Three months ended 30th September,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Earnings for the purpose of basic earnings per share	5,699	27,001
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	109	—
	<u>5,808</u>	<u>27,001</u>
Earnings for the purpose of diluted earnings per share	<u>5,808</u>	<u>27,001</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	607,984	612,184
Effect of dilutive potential ordinary shares:		
Share option	(3,843)	—
Convertible loan notes	7,218	—
	<u>611,359</u>	<u>612,184</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>611,359</u>	<u>612,184</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Three-Month Period (2001: Nil).

BUSINESS REVIEW

Data Networks Infrastructure

Due to the restructuring of the telecommunications industry and the non-seasonal nature of our business, turnover for the Three-Month Period ended 30th September, 2002 amounted to HK\$86.9 million, with gross margin maintained at 26.4%. Net profit amounted to HK\$5.7 million, representing a net profit margin of 6.6%.

Nevertheless, as the restructuring settled, we have witnessed the gradual increase in activities by telecommunications services providers in the construction of network infrastructure to meet the demand of data services and bandwidth capacity. During the quarter, we have secured contracts amounting to over HK\$135.0 million, which included a HK\$78.6 million contract from Guangdong China Telecom to upgrade and expand Guangdong Province's integrated broadband data networks — the largest integrated data networks in the PRC. We have also strengthened our presence in the northern part of China by being awarded a HK\$23.7 million contract from Liaoning China Telecom, and a HK\$19.2 million contract from Henan China Telecom. During the period, with the award of a HK\$8.7 million contract from Anhui China Telecom and a HK\$4.8 million contract from Heilongjiang China Telecom, we have successfully extended our geographical reach in China from 18 to 20 provinces, municipalities and autonomous regions and strengthened our presence in the eastern region of China and the north-eastern region of China.

In the broadband IP Metropolitan networks arena, not only have we continued to work with various telecommunications services providers in the construction of IP infrastructure, we have expanded our customer base to include cable TV operations ("CATV") and cyber ports of the local government. During the period, we have secured a HK\$1.4 million contact to supply networking equipment and services for the construction of data networks of a cyber port in the city of Chengdu and a HK\$1.9 million contract from Shanxi CATV to build an IP Metropolitan network to roll out Internet services to users in the Shanxi Province. Going forward, we will continue to take advantage of our expertise and experience in the broadband IP Metropolitan market to expand our coverage to the Internet data center space.

Wireless Communications

During the period, working in collaboration with Mobile Telecom Network (Holdings) Limited (“MTel”), we successfully entered into an agreement with Guangdong China Mobile to promote MTel’s software engine platform. Customers of Guangdong China Mobile can now gain access of data information through MTel’s platform, which features data compression, acceleration and reformatting, and enjoy the benefits of speedy data transmission using PDA phones, PDAs or laptops. Using Guangdong China Mobile as our reference site and capitalizing on our customer base, we will continue to promote MTel’s products and services to China Mobile in other provinces.

DIRECTORS’ INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 30th September, 2002, the interests of the directors and their associates in the share capital of the Company and its associates 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
José Manuel dos Santos	293,388,000	Corporate (<i>Note</i>)
Yim Hong	7,357,500	Personal
Kuan Kin Man	12,262,500	Personal
Monica Maria Nunes	2,452,500	Personal

Note: These shares are held in the name of Eve Resources Limited. The entire issued share capital in Eve Resources Limited is in turn held by a company wholly-owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust.

Under a share option scheme approved by the shareholders of the Company, the Board 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.

The directors of the Company have been granted the following share options to subscribe for shares in the Company which were all outstanding as at 30th September, 2002:

	Grant date	Number of shares options granted	Exercisable from	Exercisable until	Exercise price HK\$
Mr. José Manuel dos Santos	16th August, 2000	290,000	16th February, 2001	15th February, 2004	1.19
	1st August, 2001	522,000	1st February, 2002	31st January, 2005	0.79
Mr. Yim Hong	16th August, 2000	290,000	16th February, 2001	15th February, 2004	1.19
	1st August, 2001	522,000	1st February, 2002	31st January, 2005	0.79
Mr. Kuan Kin Man	16th August, 2000	290,000	16th February, 2001	15th February, 2004	1.19
	1st August, 2001	522,000	1st February, 2002	31st January, 2005	0.79
Ms. Monica Maria Nunes	16th August, 2000	290,000	16th February, 2001	15th February, 2004	1.19
	1st August, 2001	522,000	1st February, 2002	31st January, 2005	0.79

As at 30th September, 2002, 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 period 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 30th September, 2002, 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.

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. José 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 Period ended 30th September, 2002, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 12th November, 2002