



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司

(incorporated in Bermuda with limited liability)

THIRD QUARTER REPORT

2003

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

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This report, 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 report 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 report misleading; and (3) all opinions expressed in this report 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

- Affected by the restructuring of the telecommunications industry and focus of capital expenditures spending of China Telecom outside the Group's business domain, turnover amounted to HK\$40.7 million with a net loss of HK\$6.5 million for the Three-Month Period.
- Formed a work team to focus on new business opportunities driven by gaming operators in Macau.
- Finalized a joint venture arrangement to engage in the research and development of Operation Support Systems for telecommunications service providers in the PRC.
- Mobile Telecom Network (Holdings) Limited, in which the Group has an effective 7.3% equity interest (after capitalization), successfully got listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong.
- Exercised the right to convert US\$1.5 million convertible bonds into shares of Vodatel at an exercise price of HK\$2.00 per share by creating 5,835,000 new shares.
- Retired US\$0.75 million convertible bonds issued to Riverstone Networks.

THIRD 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”) and nine months (“Nine-Month Period”) ended 31st March 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

		Three months ended 31st March		Nine months ended 31st March	
		2003	2002	2003	2002
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	40,679	108,670	324,639	492,739
Cost of sales		(33,209)	(85,216)	(246,596)	(373,060)
Gross profit		7,470	23,454	78,043	119,679
Other revenue		504	1,501	1,937	6,884
Selling and administrative expenses		(14,592)	(20,528)	(55,905)	(65,009)
Profit/(loss) from operations		(6,618)	4,427	24,075	61,554
Finance cost		(107)	—	(279)	—
Share of results of associates		(940)	(286)	(1,680)	(1,054)
Profit/(loss) before tax		(7,665)	4,141	22,116	60,500
Taxation	4	1,224	(652)	(3,483)	(9,529)
Profit/(loss) after tax		(6,441)	3,489	18,633	50,971
Minority interest		(26)	(561)	657	(958)
Profit/(loss) attributable to shareholders		(6,467)	2,928	19,290	50,013
Dividends		—	—	6,080	6,080
Earnings/(loss) per share (HK cents)	5				
- Basic		(1.1)	0.5	3.1	8.2
- Diluted		(1.0)	0.5	3.1	8.2

UNAUDITED STATEMENT OF CHANGES IN RESERVES

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

	Three months ended 31st March 2003						
	Share	Capital	Investment	Merger	Exchange	Retained	Total
	premium	redemption	revaluation	reserve	reserve	earnings	
	reserve	reserve	reserve	reserve	reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	86,590	702	(2,372)	35,549	(42)	170,496	290,923
Loss for the period retained	—	—	—	—	—	(6,467)	(6,467)
Issue of share	11,086	—	—	—	—	—	11,086
Translation of financial statements of PRC operations	—	—	—	—	25	—	25
At 31st March 2003	<u>97,676</u>	<u>702</u>	<u>(2,372)</u>	<u>35,549</u>	<u>(17)</u>	<u>164,029</u>	<u>295,567</u>
	Nine months ended 31st March 2003						
	Share	Capital	Investment	Merger	Exchange	Retained	Total
	premium	redemption	revaluation	reserve	reserve	earnings	
	reserve	reserve	reserve	reserve	reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July 2002	86,590	702	(2,372)	35,549	(10)	147,779	268,238
Profit for the period retained	—	—	—	—	—	19,290	19,290
Issue of share	11,086	—	—	—	—	—	11,086
Translation of financial statements of PRC operations	—	—	—	—	(7)	—	(7)
2001/2002 final dividend paid	—	—	—	—	—	(3,040)	(3,040)
At 31st March 2003	<u>97,676</u>	<u>702</u>	<u>(2,372)</u>	<u>35,549</u>	<u>(17)</u>	<u>164,029</u>	<u>295,567</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 providing design and implementation of networking and related engineering services. Turnover recognized during the periods are as follows:

	Three months ended		Nine months ended	
	31st March		31st March	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Design and implementation of data networking systems and provision of related engineering services	31,732	95,967	263,864	413,496
Sale of goods	8,947	12,703	60,775	79,243
Total turnover	<u>40,679</u>	<u>108,670</u>	<u>324,639</u>	<u>492,739</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 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. The taxation charge comprises:-

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

	Three months ended		Nine months ended	
	31st March		31st March	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	—	—	—	—
Macau complimentary profits tax/(overprovision)	(1,224)	652	3,483	9,529
	<u>(1,224)</u>	<u>652</u>	<u>3,483</u>	<u>9,529</u>

There was no material unprovided deferred taxation for the period (2002: Nil).

5. Earnings/(loss) per share

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

	Three months ended		Nine months ended	
	31st March		31st March	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings/(loss)				
Earnings/(loss) for the purpose of basic earnings/(loss) per share	(6,467)	2,928	19,290	50,013
Effect of dilutive potential ordinary shares:				
Interest on convertible loan notes	<u>86</u>	<u>12</u>	<u>305</u>	<u>12</u>
Earnings/(loss) for the purposes of diluted earnings/(loss) per share	<u>(6,381)</u>	<u>2,940</u>	<u>19,595</u>	<u>50,025</u>

	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	611,141	607,984	617,967	607,984
Effect of dilutive potential ordinary shares:				
Share option	—	1,033	—	248
Convertible loan notes	2,614	374	9,440	374
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>613,755</u>	<u>609,391</u>	<u>627,407</u>	<u>608,606</u>

6. Share Capital

	Authorised	
	Ordinary shares of HK\$0.1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31st March 2003 and 31st March 2002	2,000,000,000	200,000
	<u> </u>	<u> </u>
	Issued and fully paid	
	Ordinary shares of HK\$0.1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31st March 2002	607,984,000	60,798
Issue of share on exercise of convertible bond	5,835,000	584
	<u> </u>	<u> </u>
At 31st March 2003	<u>613,819,000</u>	<u>61,382</u>

Old Share Option Scheme

Under the Old Share Option Scheme adopted by the Company on 10th February 2000 and terminated on 5th November 2002, the directors of the Company may, at their discretion, invite full-time employees including executive directors to take up options to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue from time to time (excluding shares issued on exercise of options under share option scheme).

On 16th August 2000, share options to subscribe for 1,450,000 and 4,466,000 shares were granted to the directors of the Company and certain employees of the Group respectively. None of the share options granted had been exercised as at 31st March 2003.

On 1st August 2001, share options to subscribe for 2,088,000 and 11,378,000 shares were granted to certain directors of the Company and certain employees of the Group respectively. None of the share options granted had been exercised as at 31st March 2003.

INTERIM DIVIDEND

On 13th February 2003, the Board declared an interim dividend for the six months ended 31st December 2002 of HK 1.0 cent for each share to its shareholders. Save for the above, the Board does not recommend dividend payment for the Three-Month Period ended 31st March 2003 (Three-Month Period ended 31st March 2002: Nil).

BUSINESS REVIEW

Data Network Infrastructure

Year 2003 has been and will continue to be a difficult and challenging year for telecommunications players. Our business has continued to be shaken by the lags from the restructuring of the telecommunications industry. In addition, a focus of capital expenditure spending of our major customer, China Telecom, outside the Group's business domain has further adversely affected the Group.

Despite such challenges, alternate carriers, cable TV operators and governments have continued to provide opportunities in the construction of public and wide area data networks. Therefore, we have commenced to realign our sales and marketing resources and geographical presence, allowing us to further focus on and penetrate into these segments.

We have also been working towards a regional play in the Asia Pacific region. In addition to exploring business opportunities with local partners in selected countries for the bidding of data networks projects, we have also been actively exploring collaboration opportunities to allow Vodatel to establish its foothold in the Asia Pacific region.

Emerging Market Forces — Gaming Operators in Macau

With the opening of the gaming industry in Macau during 2002, existing and new gaming operators have commenced their investment in Macau. With deep roots in Macau and capitalizing on our reputation and industry knowledge, we have formed a work team to principally focus on the robust business opportunities driven by the gaming operators. Therefore, in addition to the products and services offerings currently carried by Vodatel, which cover wide area data networking, local area networks, computers and servers, imaging applications, security solutions and systems integration, we have also been actively sourcing innovative products and services from reputable suppliers, allowing Vodatel to carry and offer a complete portfolio of solutions and applications for gaming operators.

New Business Collaboration — Operation Support Systems

During the Three-Month Period, we have finalized a joint venture arrangement to engage in the research, design, development, integration, marketing and sales of Operation Support Systems and customer-based service and network management systems. With massive investment made by telecommunications service providers in data networks over the years, operators have increasing requirements for Operation Support Systems which allow them to better manage their data networks, monitor service levels offered to customers and improve customer-relations management system, billing functionality and basic provisioning.

Wireless Communications

On 9th May, 2003, Hong Kong-based Mobile Telecom Network (Holdings) Limited (“MTel”), in which we have an effective 7.3% equity interest (after capitalization), successfully got listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong. With the mission to become one of the major mobile data solutions providers in the Asia Pacific region, MTel specializes in data and network technology including data routing, compression, acceleration, device-specific reformatting, security and multiple applications integration. Based on the closing price of MTel on 13th May, 2003, market value of our investment amounted to HK\$9.25 million.

FINANCIAL REVIEW

Attributable to difficult market conditions, we registered a turnover of HK\$40.7 million and a net loss of HK\$6.5 million for the Three-Month Period. For the Nine-Month Period, turnover amounted to HK\$324.6 million and net profit of HK\$19.3 million with gross profit margin leveled at approximately 24%. To improve our operating efficiency, we have commenced to streamline and realign our resources at our offices while maintaining geographic presence and without compromising customer support and services.

The Group continued to maintain a healthy capital structure with minimal bank borrowings. During the Three-Month Period, US\$2.25 million of the US\$3.5 million convertible bonds issued to Riverstone Networks matured. Of the US\$2.25 million convertible bonds, we exercised our right to convert US\$1.5 million convertible bonds into shares of Vodatel at an exercise price of HK\$2.00 by creating 5,835,000 new shares of Vodatel and retired US\$0.75 million convertible bonds. In addition, in view of the current business environment, we have repaid RMB3.0 million of the aggregate RMB13.0 million short-term loans raised to facilitate the operating activities of our subsidiary in the PRC.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 31st March 2003, 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
Mr. José Manuel dos Santos	293,388,000	Corporate (<i>Note</i>)
Mr. Yim Hong	7,357,500	Personal
Mr. Kuan Kin Man	12,262,500	Personal
Ms. Monica Maria Nunes	2,452,000	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 31st March 2003:

	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

Notes:

- (1) At the date before the options of exercise price of HK\$1.19 were granted, which was 15th August 2000, the market value per share was HK\$1.16.
- (2) At the date before the options of exercise price of HK\$0.79 were granted, which was 31st July 2001, the market value per share was HK\$0.78.

As at 31st March 2003, none of the options being granted to the directors under the Old Share Option Share Option Scheme 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 2003, 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.

BOARD PRACTICES AND PROCEDURES

The company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 to the Rules Governing the Listing of Securities on GEM since listed on the GEM of the Stock Exchange.

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 and the Nine-Month Period ended 31st March 2003, 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, 13th May 2003