



VODATEL

愛達利



2004

Second Interim Report

第二次中期業績報告

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“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 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 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 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 Exchange 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 (“Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company (“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 TWELVE-MONTH PERIOD

- Turnover for the Three-Month Period and the Twelve-Month Period amounted to HK\$70.7 million and HK\$375.6 million respectively. Net profit for the Twelve-Month Period was HK\$20.9 million
- The Macao 4th East Asian Games Organising Committee and the Government of Macao awarded us over HK\$78 million worth of contracts
- Completed the acquisition of TCM in Europe for consideration of €4.6 million
- Increased equity stake in MTel from 7.3% to 14.6% and convertible bonds holdings from HK\$1.6 million to HK\$3.2 million
- Change of financial year end for the Company from 30th June to 31st December

SECOND INTERIM RESULTS

On behalf of the board of the Directors (“Board”), I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months (“Three-Month Period”) and twelve months (“Twelve-Month Period”) ended 30th June, 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 30th June,		Twelve months ended 30th June,	
		2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Turnover	2	70,651	64,155	375,583	388,794
Cost of sales		(54,142)	(55,390)	(300,101)	(301,986)
Gross profit		16,509	8,765	75,482	86,808
Other revenues		1,362	3,949	4,362	5,886
Selling and administrative expenses		(15,938)	(20,976)	(70,048)	(76,881)
Operating profit/(loss)		1,933	(8,262)	9,796	15,813
Finance cost		(799)	(356)	(1,196)	(635)
Deemed disposal gain	3	—	—	10,769	—
Share of loss of associated companies		(201)	(808)	(557)	(2,488)
Profit/(loss) before taxation		933	(9,426)	18,812	12,690
Taxation	5	332	825	(788)	(2,658)
Profit/(loss) after taxation		1,265	(8,601)	18,024	10,032
Minority interests		3,086	(95)	2,830	562
Profit/(loss) attributable to shareholders		4,351	(8,696)	20,854	10,594
Dividend	6	—	3,069	6,413	9,207
Earnings/(loss) per share (HK cents)	7				
— Basic		0.7	(1.4)	3.4	1.7
— Diluted		0.7	(1.4)	3.4	1.7

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th June, 2004 (unaudited) <i>HK\$'000</i>	As at 30th June, 2003 <i>HK\$'000</i>
	<i>Notes</i>		
Intangible assets		12,079	1,302
Perpetual exclusive licence of a software		11,000	—
Fixed assets		13,135	6,666
Investments in associated companies		4,531	5,257
Deposit on acquisition of subsidiaries		18,860	8,227
Non-trading securities		44,933	11,668
Current assets			
Inventories		111,893	139,573
Trade and bills receivables	8	164,938	138,048
Other receivables, deposits and prepayments		40,201	17,495
Bank balances and cash		209,086	163,586
		526,118	458,702
Current liabilities			
Trade and bills payables	9	52,592	49,139
Other payables and accruals		19,150	24,215
Convertible bonds		—	9,725
Taxation payable		52,428	52,728
Short-term bank loan, unsecured		—	9,346
Current portion of long-term bank loan, unsecured		29,175	—
		153,345	145,153
Net current assets		372,773	313,549
Total assets less current liabilities		477,311	346,669
Financed by:			
Share capital	10	61,382	61,382
Reserves	11	308,137	276,003
Proposed dividends	11	—	3,069
		369,519	340,454
Minority interests		20,267	6,215
Long-term bank loan, unsecured		87,525	—
		477,311	346,669

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the twelve months ended 30th June, 2004 (unaudited) <i>HK\$'000</i>	For the twelve months ended 30th June, 2003 <i>HK\$'000</i>
Net cash outflow from operating activities	(22,763)	(45,660)
Net cash outflow from investing activities	(32,803)	(7,625)
Net cash inflow from financing activities	101,066	3,511
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	45,500	(49,774)
Cash and cash equivalents at the beginning of the period	163,586	213,360
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	209,086	163,586
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	209,086	163,586
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED STATEMENT OF CHANGES IN EQUITY

	For the twelve months ended 30th June, 2004 (unaudited) <i>HK\$'000</i>	For the twelve months ended 30th June, 2003 <i>HK\$'000</i>
Total equity balance at the beginning of the period	340,454	329,036
Issue of shares	—	584
Share premium on issuance of shares	—	11,086
Surplus on revaluation of non-trading securities	12,249	114
Group reorganization	5,489	—
Reserve transferred to profit and loss account upon disposal of a non-trading security	—	(1,900)
Exchange differences arising on translation of accounts of overseas subsidiaries and an associated company	(44)	118
Net gains and losses not recognised in the consolidated profit and loss account	17,694	10,002
	358,148	339,038
Profit attributable to shareholders	20,853	10,594
2001/2002 Final dividend paid	—	(3,040)
2002/2003 Interim dividend paid	—	(6,138)
2002/2003 Final dividend paid	(3,069)	—
2003/2004 Interim dividend paid	(3,069)	—
Special interim dividend	(3,344)	—
Total equity balance at the end of the period	369,519	340,454

NOTES:

1. **Principal accounting policies**

The condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No.2.125 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

In the Twelve-Month Period, the Group adopted SSAP No. 2.112 (revised) "Income taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2003. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets and of investments, provisions for pensions and other post retirement benefits and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP No. 2.112 (revised) had no material impact on the preparation of the accounts.

Except for the adoption of SSAP No.2.112 (revised) as mentioned in the previous paragraphs, the accounting policies in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 30th June, 2003.

2. Segment information

Business segments

An analysis of the turnover and results of the Group for the Twelve-Month Period by business segments is as follows:

	Twelve months ended 30th June, 2004			Twelve months ended 30th June, 2003		
	Design, sale and implementation of data networking systems and provision of related engineering services <i>HK\$'000</i>	Sale of goods <i>HK\$'000</i>	Group <i>HK\$'000</i>	Design, sale and implementation of data networking systems and provision of related engineering services <i>HK\$'000</i>	Sale of goods <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	310,530	65,053	375,583	321,453	67,341	388,794
Segment results	20,437	7,006	27,443	21,156	7,252	28,408
Unallocated income			4,362			5,886
Unallocated cost			(22,009)			(18,481)
Operating profit			9,796			15,813
Finance cost			(1,196)			(635)
Deemed disposal gain			10,769			—
Share of losses of associated companies			(557)			(2,488)
Profit before taxation			18,812			12,690
Taxation			(788)			(2,658)
Profit after taxation			18,024			10,032
Minority interests			2,830			562
Profit attributable to shareholders			20,854			10,594

There are no significant sales or other transactions between the business segments.

3. Deemed disposal gain

On 19th January, 2004, the ordinary shares of nominal value HK\$0.01 each in the capital of MegalInfo Holdings Limited (“MegalInfo”), a subsidiary of the Company, were listed on GEM (“Spin-off”). As a result of the Spin-off, the shareholding of the Company in MegalInfo has been diluted to 61.05%, which resulted in a gain of HK\$10.8 million arising from the deemed disposal.

4. Depreciation and amortization

During the Twelve-Month Period, depreciation of HK\$4.0 million (twelve-month period ended 30th June, 2003: HK\$2.5 million) was charged in respect of the fixed assets of the Group, and amortization of HK\$1.0 million (twelve-month period ended 30th June, 2003: HK\$0.1 million) was charged in respect of the goodwill and research and development cost of the Group.

5. Taxation

No provision for the profits tax of the Hong Kong Special Administrative Region of the People's Republic of China (“Hong Kong”) has been made in the accounts, as the Group does not have any estimated assessable Hong Kong profits for the Three-Month Period and the Twelve-Month Period.

The complimentary profits tax of the Macao Special Administrative Region of the People's Republic of China (“Macao”) has been calculated at 15.75% on the estimated assessable profits of group companies operating in Macao for the Three-Month Period and the Twelve-Month Period.

The profits tax in mainland China has been calculated at 33% on the estimated assessable profits of group companies operating in mainland China.

The amount of taxation charged to the consolidated profit and loss account represents:

	Three months ended 30th June,		Twelve months ended 30th June,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	—	—	—	—
Macao complimentary profits tax/(overprovision)	(406)	(1,091)	322	2,392
Mainland China profits tax	74	266	466	266
	<u>(332)</u>	<u>(825)</u>	<u>788</u>	<u>2,658</u>

There was no material unprovided deferred taxation for the Three-Month Period and Twelve-Month Period (three-month period and twelve-month period ended 30th June, 2003: Nil).

6. Dividend

	Three months ended		Twelve months ended	
	30th June,		30th June,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Special interim dividend (note (a))	—	—	3,344	—
Interim, paid for 2003/2004, of HK\$0.005 (2002/2003: HK\$0.01) per ordinary share (note (b))	—	3,069	3,069	6,138
Final, proposed for 2003/2004, of HK\$Nil (2002/2003: HK\$0.005) per ordinary share (note (c))	—	—	—	3,069
	<u>—</u>	<u>3,069</u>	<u>6,413</u>	<u>9,207</u>

Notes:

- (a) On 19th December, 2003, the Board approved the payment of a special interim dividend as part of the proposal for the Spin-off by way of a distribution in specie in respect of an aggregate of 13,375,000 ordinary shares of nominal value HK\$0.01 each in the capital of MegalInfo ("MegalInfo Shares") to the registered holders of the ordinary shares of the Company, such that one MegalInfo Share was issued for every 46 ordinary shares of the Company.
- (b) On 13th February, 2004, the Board approved an interim dividend of HK0.5 cent per share to the shareholders of the Company whose names appear in the Register of Members on 5th March, 2004.
- (c) The Board does not recommend dividend payment for the Three-Month Period.

7. Earnings/(loss) per share

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

	Three months ended 30th June,		Twelve months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Earnings/(loss)				
Earnings/(loss) for the purpose of basic earnings/(loss) per share	4,351	(8,696)	20,854	10,594
Effect of dilutive potential ordinary shares:				
Interest on convertible bonds	—	47	—	—
Earnings/(loss) for the purpose of diluted earnings/(loss) per share	<u>4,351</u>	<u>(8,649)</u>	<u>20,854</u>	<u>10,594</u>
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	613,819	613,819	613,819	609,966
Effect of dilutive potential ordinary shares:				
Convertible bonds	—	4,863	—	3
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>613,819</u>	<u>618,682</u>	<u>613,819</u>	<u>609,969</u>

8. Trade and bills receivables

At 30th June, 2004, the aging analysis of the trade and bills receivables were as follows:

	As at 30th June, 2004 <i>HK\$'000</i>	As at 30th June, 2003 <i>HK\$'000</i>
0-3 months	56,194	42,985
4-6 months	35,390	19,479
7-12 months	49,218	54,437
Over 12 months	43,611	43,089
	<hr/>	<hr/>
	184,413	159,990
Less: provision	<hr/> <i>(19,475)</i>	<hr/> <i>(21,942)</i>
	<hr/>	<hr/>
	<u>164,938</u>	<u>138,048</u>

The credit terms granted to customers vary and are generally the result of negotiations between the individual customers and the Group. Customers are generally required to pay at various intervals over the life of the projects.

9. Trade and bills payables

At 30th June, 2004, the aging analysis of the trade and bills payables were as follows:

	As at 30th June, 2004 <i>HK\$'000</i>	As at 30th June, 2003 <i>HK\$'000</i>
0-3 months	21,663	39,129
4-6 months	20,341	2,536
7-12 months	2,976	1,729
Over 12 months	7,612	5,745
	<hr/>	<hr/>
	52,592	49,139
	<hr/>	<hr/>
	<u>52,592</u>	<u>49,139</u>

10. Share capital

Ordinary shares of HK\$0.10 each

No. of shares

HK\$'000

Authorised

At 30th June, 2004 and 2003

2,000,000,000

200,000

Issued and fully paid

At 30th June, 2004 and 2003

613,819,000

61,382

11. Reserves

	Capital		Investment	Merger reserve	Exchange reserve	Statutory reserve	Retained earnings	Total
	Share premium	redemption reserve	revaluation reserve					
	HK\$'000	HK\$'000	HK\$'000					
At 1st July, 2003	<u>97,676</u>	<u>702</u>	<u>(4,158)</u>	<u>35,549</u>	<u>108</u>	<u>49</u>	<u>149,146</u>	<u>279,072</u>
Surplus on revaluation of non-trading securities	—	—	12,249	—	—	—	—	12,249
Exchange differences arising on translation of accounts of overseas subsidiaries	—	—	—	—	(44)	—	—	(44)
Group reorganization	—	—	—	5,489	—	—	—	5,489
Profit attributable to shareholders	—	—	—	—	—	—	20,853	20,853
2002/2003 Final dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
Special interim dividend	—	—	—	—	—	—	(3,344)	(3,344)
2003/2004 Interim dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
At 30th June, 2004	<u>97,676</u>	<u>702</u>	<u>8,091</u>	<u>41,038</u>	<u>64</u>	<u>49</u>	<u>160,517</u>	<u>308,137</u>

	Share premium	Capital redemption reserve	Investment revaluation reserve	Merger reserve	Exchange reserve	Statutory reserve	Retained earnings	Total
	HK\$'000	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
Share premium on issuance of shares	11,086	—	—	—	—	—	—	11,086
Surplus on revaluation of non-trading securities	—	—	114	—	—	—	—	114
Reserves transferred to profit and loss account upon disposal of a non-trading security	—	—	(1,900)	—	—	—	—	(1,900)
Exchange differences arising on translation of accounts of overseas subsidiaries and an associated company	—	—	—	—	118	—	—	118
Provision of Macao statutory reserve	—	—	—	—	—	49	(49)	—
Profit attributable to shareholders	—	—	—	—	—	—	10,594	10,594
2001/2002 Final dividend paid	—	—	—	—	—	—	(3,040)	(3,040)
2002/2003 Interim dividend paid	—	—	—	—	—	—	(6,138)	(6,138)
At 30th June, 2003	<u>97,676</u>	<u>702</u>	<u>(4,158)</u>	<u>35,549</u>	<u>108</u>	<u>49</u>	<u>149,146</u>	<u>279,072</u>

12 Related party transactions

Significant related party transactions, which were carried out in the normal course of the business of the Group are as follows:

	Three months ended 30th June,		Twelve months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Sales of goods to Zetronic Comunicações Lda (Note (a))	—	—	15	67
Rental charges payable to a Director (Note (b))	192	192	768	678

- (a) Zetronic Comunicações Lda is a company incorporated in Macao and owned by a Director, Mr. José Manuel dos Santos. In the opinion of the Directors, the transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.
- (b) The Group leased its Macao office premises from Mr. José Manuel dos Santos at a monthly rental of approximately HK\$5,000 commencing from 1st October 1999 up to 2nd August, 2002 and HK\$38,000 commencing from 16th September, 2002. In addition, the Group also leased its Guangzhou office premises from Mr. José Manuel dos Santos at a monthly rental of approximately HK\$26,000 commencing from 1st February, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Material acquisitions and disposals

The Group had no material acquisitions or disposals during the Twelve-Month Period, other than the acquisition of 7.3% shareholding and convertible notes in the principal amount of HK\$1.6 million in Mobile Telecom Network (Holdings) Limited (“MTel”) for a consideration of HK\$15.7 million and the acquisition of Teleconcept-Multimedia N.V. (“TCM”) as illustrated under the paragraph “TCM” under the section “Review of Business Activities”.

Capital commitments and significant investments

As at 30th June, 2003, the Group did not have any significant capital commitments and significant investments, other than those set out under the paragraph “Material acquisition and disposals” above.

Employee information

As at 30th June, 2004, the Group had 238 employees spreading in Hong Kong, Macao and mainland China. Total remuneration of all employees amounted to HK\$27.6 million.

The remuneration and bonus policies of the Group are basically determined by the performance of individual employees.

The Company adopted a new share option scheme (“Scheme”) at a special general meeting held on 5th November, 2002, whereby certain employees of the Group may be granted options to acquire shares. Details of the Scheme is set out under the section “Share Options”.

The Group also provides various training programs and product orientation for the technical employees and marketing employees so as to improve their overall qualification and to continuously keep them abreast of industry changes.

Charges on group assets

As at 30th June, 2004, the Group did not have any charges on group assets.

Details of future plans for material investments or capital assets

The Company is now evaluating the market for the provision of cellular phones and internet security software and may deploy certain resources for investments in the area should appropriate investment opportunities arise. Save as disclosed above, the Directors do not have any future plans for material investments or capital assets.

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars, Macao patacas, US dollars and Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

Contingent liabilities

As at 30th June, 2004, the Group did not have any contingent liabilities.

REVIEW OF BUSINESS ACTIVITIES

Data Networking Infrastructure

Despite slacking capital expenditure by telecommunications service providers on data networking infrastructure and increasing competition from local equipment manufacturers in mainland China, robust activities in Macao continued to offer numerous business opportunities for the Group. During the Three-Month Period, in addition to completing various infrastructure projects for the gaming operators in Macao, namely Venetian Macau Limited and Galaxy Casino S.A., we have been actively pursuing business opportunities from other new gaming players, the Macao 4th East Asian Games Organising Committee and the Government of Macao. Projects awarded during the Three-Month Period included the installation of networking infrastructure at the core dome that will host major events during the 2005 East Asian Games and a project, which we partnered with Motorola Asia Pacific Limited, for the supply of a digital TETRA radio system for the police department of the Government of Macao. The aggregate value of these contracts amounted to approximately HK\$78 million.

Our strong customer base comprising telecommunications service providers in mainland China has continued to allow us to excel and transform to a market player that offers our own developed software. During the Three-Month Period, our subsidiary in Shanghai, TideStone has successfully secured contracts to install its Operation Support System, including a contract from Xinjiang China Telecom and an expansion project from Guangdong China Telecom, where the aggregate value of these contracts amounted to approximately HK\$4.5 million.

MegalInfo

During the Three-Month Period, MegalInfo continued to establish a marketing network for the promotion and delivery of its products — (i) MegalImage (document imaging application), (ii) MegaMax (surveillance solution), (iii) MegaERP (enterprise resources planning application) and (iv) MegaECM (effective communications management solution). With targeted customer groups including telecommunications service providers, governmental authorities and enterprises in Macao and mainland China, MegalInfo pursued the following two strategic directions:

1. Channel marketing — During the Three-Month Period, MegalInfo entered into distributorship arrangements with ten resellers for the promotion and distribution of its MegaERP to cover the northern, southern and eastern regions of mainland China. To support this channel marketing, MegalInfo has established a subsidiary in Guangzhou and a centre in Beijing to provide products and technical support to its network of resellers; and
2. Collaboration arrangements — In addition to channel marketing, as a means of strengthening product differentiation and enhancing market positioning, MegalInfo is also engaged in discussions to form collaboration arrangements directly with different manufacturers to bundle products of MegalInfo and the manufacturers to form complete and complementary solutions.

MegalInfo has also continued to benefit from the business opportunities in Macao. During the Three-Month Period, MegalInfo successfully secured various projects from the Government of Macao, including the provision of an automatic vehicle clearance system. Other projects secured during this period included a contract to install MegalImage at Zhongshan China Mobile and the sale of MegaERP to various customers via its network of resellers.

TCM

On 9th July, 2004, the Group completed our acquisition of 60% of TCM for consideration of €4.6 million (approximately HK\$43.4 million), comprising €2.3 million (approximately HK\$21.7 million) as equity and €2.3 million (approximately HK\$21.7 million) as an interest-free subordinated shareholder's loan. TCM, which holds four entities in Europe, namely Voxel Finland Oy in the Republic of Finland, Servicios Telefonicos de Audiotex, S.A. in the Kingdom of Spain, SuperCom GmbH Audiotex Systeme in the Federal Republic of Germany and Teleconcept-Multimedia B.V. in the Kingdom of the Netherlands, focuses on media, enterprise communications, entertainment for consumers and direct marketing markets and is engaged in the provision of multi-media value-added services such as content and campaign management, distribution and billing via a number of platforms, such as interactive voice response, interactive internet solutions and premium short message services.

The combination of TCM in Europe, MTel in the Asia Pacific region and the Group in mainland China consolidates the strengths of geographical footprints, technical knowledge and content deliverables and creates a global alliance that capitalizes on the rapidly growing worldwide market for multi-media value-added mobile services. This global combination, which provides a connectivity platform for users delivery and distribution of enriched content downloads and information services for uses of 2G, 2.5G and 3G, aims to attract various strategic partners so as to achieve a leading role as one of the international players in the multi-media value-added services arena.

REVIEW OF OPERATING RESULTS

Change of Financial Year End

To realign the financial and taxation year-end of the subsidiaries of the Company, the financial year-end of the Company has been changed from 30th June to 31st December. The annual report containing audited financial statements for 18 months ended 31st December, 2004 will be published and sent to shareholders of the Company on or before 31st March, 2005.

Turnover and Profitability

During the Twelve-Month Period, although business activities have been adversely affected by the lag in the restructuring of the telecommunications market and increasing competition in mainland China from local equipment manufacturers, lower turnover derived from mainland China has been compensated by increased business opportunities in Macao from new gaming operators and the Government of Macao. Turnover for the Three-Month Period amounted to HK\$70.7 million, with turnover for the Twelve-Month Period reaching HK\$375.6 million. With projects in Macao carrying lower margins than those of mainland China, gross profit margin declined to 20.1% for the Twelve-Month Period. Nevertheless, as a result of various cost cutting exercises and gains on disposal from the Spin-off, net profit for the Twelve-Month Period was HK\$20.9 million.

To secure the return on the investment in TCM made by the Group, the Group has negotiated turnover and earnings before interest, taxes, depreciation and amortization (“EBITDA”) guarantees whereby in the event of a shortfall within 5% of the targeted turnover and EBITDA, cash is compensated, otherwise, should the shortfall exceeds 5%, either cash or additional shareholding is due to the Group. Turnover and EBITDA targets for TCM for the upcoming 12-month period ending 30th June, 2005 are €17.7 million (approximately HK\$166.9 million) and €1.2 million (approximately HK\$11.7 million) respectively, whereas turnover and EBITDA targets for the following 12-month period ending 30th June, 2006 are €21.2 million (approximately HK\$200.3 million) and €2.1 million (approximately HK\$20.0 million) respectively. The Group expects that these turnover and EBITDA guarantees will help the Group to achieve stable and recurring revenue and to maintain profitability.

Capital Structure, Liquidity and Financial Resources

The Group continued to maintain a healthy capital structure with cash on hand as at 30th June, 2004 of HK\$209.1 million. Trade and bills receivables was HK\$164.9 million, with up to the date of this announcement, HK\$28.6 million of trade and bills receivables was settled, thus reducing outstanding amount to HK\$136.3 million. Total borrowings of HK\$116.7 million, which equated the term loan of US\$15 million raised to finance the acquisitions and working capital of the Group, translated to a gearing ratio (total borrowings / shareholders’ funds) of 31.6%.

Dividend distribution policy

During the Twelve-Month Period, the Company proposed an interim dividend of HK\$0.005 per ordinary share as well as a special interim dividend (details of the special interim dividend and interim dividend are set out in note 6(a) and note 6(b) respectively). Each ordinary share of the Company brought about HK\$0.01 return to the shareholder. As a result, the Board does not recommend dividend payment for the Three-Month Period.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30th June, 2004, the relevant interests and short positions of the Directors or chief executive of the Company in the shares of HK\$0.10 each in the share capital of the Company ("Share(s)"), underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which will be required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 or Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or will be required pursuant to section 352 of the SFO, to be entered in the register referred to therein or will be required, pursuant to rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Exchange were as follows:

Aggregate long and short positions in the Shares and (in respect of equity derivatives) underlying shares of the Company

Name of Director	Long position/ short position	Nature of interest	No. of Shares held	No. of underlying Company shares in respect of share option held	Approximate % of the issued share capital of the Company
Mr. José Manuel dos Santos	Long position	Corporate interest/ founder of a discretionary trust (Note 1)	293,388,000	—	47.80%
	Long position	Personal (Note 2)	—	600,000	0.10%
	Short position	Corporate interest (Note 3)	—	15,932,000	2.60%
Mr. Yim Hong	Long position	Personal (Note 4)	7,357,500	900,000	1.35%
Mr. Kuan Kin Man	Long position	Personal (Note 5)	12,262,500	900,000	2.14%
Ms. Monica Maria Nunes	Long position	Personal (Note 6)	2,452,000	900,000	0.55%

Notes:

- (1) As at 30th June, 2004, these Shares were held in the name of Eve Resources Limited. The entire issued share capital in Eve Resources Limited was in turn held by Lois Resources Limited, a company wholly-owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust.

- (2) The personal interest of Mr. José Manuel dos Santos comprised 600,000 underlying shares in respect of share options granted by the Company to him. The aforesaid interest is held by Mr. José Manuel dos Santos as beneficial owner.
- (3) Options were granted by the Company under the Scheme. Since Mr. José Manuel dos Santos was interested in more than one-third of the issued share capital of the Company at 30th June, 2004, he was deemed to have a short position in the 15,932,000 underlying shares.
- (4) The personal interest of Mr. Yim Hong comprised 7,357,500 Shares and 900,000 underlying shares in respect of share options granted by the Company to him. The aforesaid interest is held by Mr. Yim Hong as beneficial owner.
- (5) The personal interest of Mr. Kuan Kin Man comprised 12,262,500 Shares and 900,000 underlying shares in respect of share options granted by the Company to him. The aforesaid interest is held by Mr. Kuan Kin Man as beneficial owner.
- (6) The personal interest of Ms. Monica Maria Nunes comprised 2,452,500 Shares and 900,000 underlying shares in respect of share options granted by the Company to her. The aforesaid interest is held by Ms. Monica Maria Nunes as beneficial owner.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30th June, 2004 so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) has an interest or short position in the Shares or underlying shares of the Company which will fall to be disclosed to the Company under the provisions of Divisions 2 and 3 and Part XV of the SFO, or, who was, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Aggregate long and short positions in the Shares and (in respect of equity derivatives) underlying shares of the Company

Name of Shareholder	Long position/ short position	Nature of interest	No. of Shares held	No. of underlying Company shares held	Approximate % of the issued share capital of the Company
Eve Resources Limited (Note 1)	Long position	Corporate interest	293,388,000	—	47.80%
	Short position	Corporate interest	—	15,932,000	2.60%
Lois Resources Limited (Note 1)	Long position	Corporate interest	293,388,000	—	47.80%
	Short position	Corporate interest	—	15,932,000	2.60%
Lei Hon Kin (Note 2)	Long position	Family interest	293,988,000	—	47.89%
	Short position	Corporate interest	—	15,932,000	2.60%

Notes:

- (1) The entire issued share capital in Eve Resources Limited is in turn held by Lois Resources Limited, a company wholly-owned by Mr. José Manuel dos Santos.
- (2) Ms. Lei Hon Kin, the spouse of Mr. José Manuel dos Santos, was deemed to be interested in 293,988,000 Shares which were deemed to be interested by Mr. José Manuel dos Santos.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE BY THE CONTROLLING SHAREHOLDERS

On 26th September, 2003, Vodatel Holdings Limited (“VHL”), a wholly owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability, entered into a loan facility agreement (“Agreement”) with Banco Comercial de Macau S.A., CITIC Ka Wah Bank Limited, HSH Nordbank AG, Hong Kong Branch, Industrial and Commercial Bank of China (Asia) Limited (collectively known as the “Lenders”) and Standard Chartered Bank (Hong Kong) Limited (“Agent”) for a term loan facility of US\$15,000,000. The purpose of the loan is for general corporate purposes and for general working capital. VHL may only drawdown the loan between the period commencing on and including the date of the Agreement and ending on the date 6 months thereafter. VHL shall repay the loan drawn down by 4 consecutive equal semi-annual instalments commencing on the date 18 months after the date of the Agreement. Notwithstanding the above, all outstanding amount under the Agreement shall be repaid on the date 36 months after the date of the Agreement. The interest rate is LIBOR+ 130 basis points.

The Company also executed the deed of guarantee and indemnity (“Guarantee”) in favour of the Agent and the Lenders on 26th September, 2003 in respect of the obligations of VHL under the Agreement.

Under the GEM Listing Rules, the Company is required to make a disclosure where the Company or any of its subsidiaries enters into other agreements that include a condition imposing specific performance obligations on any controlling shareholder and breach of such obligation will cause a default in respect of the loan that is significant to the operations of the Company. Under the Guarantee and the Agreement, the Company and VHL undertake with the Agent and each of the Lenders that each of them shall procure that:

- (i) the trustee of the existing trust whereby the family members of Mr. José Manuel dos Santos are the discretionay objects and which assets include a controlling stake of 47.80% of the issued share capital of the Company ("Santos' Family Trust") (being the controlling shareholder (as defined in the GEM Listing Rules) of the Company) shall at all times have as its trust assets, directly or indirectly, not less than 35% of each class of the issued voting share capital in the Company and that the service agreement between Mr. José Manuel dos Santos and the Company dated 10th February, 2004 is not amended or terminated without the prior written consent of the Agent; and
- (ii) the Santos' Family Trust shall not (whether by a single transaction or a number of related or unrelated transactions and whether at the same time or over a period of time) voluntarily dispose of more than 5% of its shareholdings in the Company without the prior written consent of the Lenders, the aggregate of whose participants exceeds $66\frac{2}{3}\%$ of the loan or if no advances have been made or are outstanding the aggregate of whose commitment exceed $66\frac{2}{3}\%$ of the undrawn balance of the commitment (such consent not to be unreasonably withheld or delayed).

In default of the above undertaking, the Agent may declare all obligations under the Agreement to be immediately due and payable.

This section is made pursuant to rule 17.20 of the GEM Listing Rules.

SHARE OPTIONS

On 30th June, 2003, under the Scheme, 3,300,000 share options were granted to certain Directors and 13,838,000 share options were granted to the employees of the Group.

Details of the share options outstanding as at 30th June, 2004 which have been granted under the Scheme are as follows:

Name of category of participant	Options held at	Options lapsed during the	Options held at	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	1st July, 2003	Twelve -Month Period	30th June, 2004				
Directors							
Mr. José Manuel dos Santos	600,000	—	600,000	0.42 ⁽ⁱ⁾	30th June, 2003	30th June, 2003	29th June, 2006
Mr. Yim Hong	900,000	—	900,000	0.42 ⁽ⁱ⁾	30th June, 2003	30th June, 2003	29th June, 2006
Mr. Kuan Kin Man	900,000	—	900,000	0.42 ⁽ⁱ⁾	30th June, 2003	30th June, 2003	29th June, 2006
Ms. Monica Maria Nunes	900,000	—	900,000	0.42 ⁽ⁱ⁾	30th June, 2003	30th June, 2003	29th June, 2006
Sub-total for Directors	3,300,000	—	3,300,000				
Continuous contract employees	13,838,000	(1,206,000)	12,632,000	0.42 ⁽ⁱ⁾	30th June, 2003	30th June, 2003	29th June, 2006
Total	17,138,000	(1,206,000)	15,932,000				

Note:

- (i) At the date before the options of exercise price of HK\$0.42 were granted, which was 27th June, 2003, the market value per share was HK\$0.41.

None of the share options granted had been exercised or cancelled during the Twelve-Month Period.

Options may be exercised in a period of 3 years commencing on the date on which the option is granted and accepted by the grantee, and expiring on 4th November, 2012, whichever is the earlier.

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 rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the Twelve-Month Period.

AUDIT COMMITTEE

The Company established an audit committee on 10th February, 2000 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee has three members comprising Mr. José Manuel dos Santos, who is the Chairman of the Company, and the two independent non-executive Directors, Mr. Chui Sai Cheong and Mr. Lo King Chiu Charles. The unaudited results of the Group for the Three-Month Period and the Twelve-Month Period have been reviewed by the audit committee, which was of the opinion that the preparation of such results complies with applicable accounting standards and requirements, and the adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Three-Month Period and the Twelve-Month Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

By order of the Board
José Manuel dos Santos
Chairman

Hong Kong, 13th August, 2004

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

VODATEL NETWORKS HOLDINGS LIMITED
愛達利網絡控股有限公司

Room 1401, 14th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

香港干諾道中168-200號
信德中心招商局大廈14樓1401室
Tel : (852) 2587 8868 Fax: (852) 2587 8033



VODATEL HOLDINGS LIMITED
愛達利控股有限公司

(a wholly-owned subsidiary of Vodatel Networks Holdings Limited)

No.74 da Rua da Felicidade
Edf. Vodatel
Taipa, Macau

澳門氹仔永福街74號
愛達利大廈
Tel : (853) 721182, 718033 Fax: (853) 717800



Website: <http://www.vodatelsys.com>