



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司 *

(incorporated in Bermuda with limited liability)

(Stock Code: 8033)

FIRST QUARTER REPORT

2005

* *for identification purpose only*

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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 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 report, 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 report.

This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this 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 FOR THE THREE-MONTH PERIOD

- Turnover for the Three-Month Period amounted to HK\$80,561,000 with a net loss of HK\$5,110,000
- Business from Mainland China remained stagnant due to difficult market conditions and effect of the Chinese New Year
- Business prospects from Macao remained strong with orders on hand as at the date of this report exceeding HK\$100,000,000
- Improved performance at TCM with net loss narrowing to HK\$897,000
- The Board does not recommend payment of a dividend for the Three-Month Period

FIRST QUARTER RESULTS

The Board is pleased to present the unaudited consolidated results of the Group for the Three-Month Period as follows:

		Three-Month Period 2005 (Unaudited) HK\$'000	Three months ended 31st March, 2004 (Unaudited) HK\$'000
	<i>Note</i>		
Turnover		80,561	119,847
Cost of sales		(59,889)	(102,433)
Gross profit		20,672	17,414
Other revenues		2,808	2,304
Selling and administrative expenses		(27,658)	(17,846)
Operating (loss)/profit		(4,178)	1,872
Deemed disposal gain from separate listing of MIHL		—	10,769
Finance costs		(1,794)	(17)
Share of (losses)/profits of associated companies		(127)	237
(Loss)/profit before taxation		(6,099)	12,861
Taxation	1	—	(330)
(Loss)/profit after taxation		(6,099)	12,531
Minority interests		989	650
(Loss)/profit attributable to Members		(5,110)	13,181
Dividends		—	—
(Loss)/earnings per Share (HK cents)			
— Basic	2	(0.83)	2.1
— Diluted	2	Not applicable	2.1

NOTES:

1. Taxation

Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profit for the Three-Month Period. Taxation on overseas profit had been calculated on the estimated assessable profit for the Three-Month Period at the rates of taxation prevailing in the regions in which the Group operated.

2. (Loss)/earnings per Share

The calculation of basic loss per Share was based on the loss attributable to Members of HK\$5,110,000 (three months ended 31st March, 2004: profit of HK\$13,181,000) and the weighted average of 613,819,000 Shares (three months ended 31st March, 2004: 613,819,000 Shares) in issue during the Three-Month Period.

No diluted earnings per Share for the Three-Month Period was presented as the exercise of the outstanding share options of the Company would have an anti-dilutive effect. The weighted average of 618,682,000 Shares for the three months ended 31st March, 2004 included all share options and convertible bonds outstanding, except for share options and convertible bonds having anti-dilutive effect, on the assumptions that all share options and convertible bonds had been converted.

3. Reserves

	Share premium	Capital redemption reserve	Investment revaluation reserve	Merger reserve	Exchange reserve	Statutory reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January, 2005	97,676	702	5,315	35,549	3,034	49	(30,994)	111,331
Surplus on revaluation of non-trading securities	—	—	342	—	—	—	—	342
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	—	—	—	—	(2,139)	—	—	(2,139)
Loss attributable to Members	—	—	—	—	—	—	(5,110)	(5,110)
As at 31st March, 2005	<u>97,676</u>	<u>702</u>	<u>5,657</u>	<u>35,549</u>	<u>895</u>	<u>49</u>	<u>(36,104)</u>	<u>104,424</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
As at 1st January, 2004	97,676	702	4,182	37,483	59	49	146,055	286,206
Group reorganisation	—	—	—	3,550	—	—	—	3,550
Profit attributable to Members	—	—	—	—	—	—	13,181	13,181
Eighteen-month period ended 31st December, 2004								
interim dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
As at 31st March, 2004	<u>97,676</u>	<u>702</u>	<u>4,182</u>	<u>41,033</u>	<u>59</u>	<u>49</u>	<u>156,167</u>	<u>299,868</u>

BUSINESS REVIEW

Operating result for the construction of data network infrastructure in Mainland China continued to be affected by the challenging business environment, coupled with slower activities due to Chinese New Year. Projects completed during the Three-Month Period included contracts awarded by Shanghai China Netcom, Anhui China Telecom, an electricity bureau in Beijing and a Government bureau in the Zhejiang Province. Although the Group witnessed a gradual improvement in the overall operating environment of data network infrastructure in Mainland China, management anticipated the transformation of such improvement to business opportunities would emerge at a slower pace. Nevertheless, management will keep abreast of the changes to the operating environment and will realign our resources accordingly. Cost control over the operations in Mainland China continued.

Though the market in Mainland China remained challenging, robust economic activities in Macao continued to offer promising business prospects for the Group. As at the date of this report, orders on hand relating to projects in Macao exceed HK\$100,000,000, with completion dates of these projects expected to take place before end of 2005. In addition to those projects already secured, the local market continued to offer numerous business opportunities as gaming operators, including the Venetian Cotai Limited, Galaxy Casino S.A. and Wynn-Resorts, gradually commenced the tendering process for their gaming sites in the areas of structured cabling, networking, surveillance solutions, security radio systems and local area networking. To ensure that quality of work will not be compromised, the Group will carefully evaluate each of the business opportunities available and select to tender for those projects that are in line with internal resources and carried higher margins and better payment terms.

In respect to business prospects of TCM, in Spain, leveraging on the established market experience and strong technical capabilities, the Group have secured a project to act as the service and technical provider in a marketing campaign launched in Spain with a worldwide reputable soft drink company by developing the application and engaging in data base management. In addition, with positive responses from the trial of a tone-related service, TCM is currently in the process of improving the service by improving the quality and rhythms of different sound versions. In the Netherlands, TCM has also launched a lottery inquiry service and in the Federal Republic of Germany, TCM has expanded its chatting services on its existing platform to include SMS live chat services. Going forward, to further leverage on the success of any application or service, TCM will explore the possibility to cross sell and customise successful applications and services to other geographical locations.

FINANCIAL REVIEW

During the Three-Month Period, with slower business activities from Mainland China due to both market conditions and Chinese New Year and projects in Macao still under installation phases, total turnover derived from the Group amounted to HK\$80,561,000. Although total turnover for the Three-Month Period represented a decrease of 32.78% over the same corresponding period during 2004, gross profit increased by 18.71% to reach HK\$20,672,000. Lower margins from projects in Macao have been compensated by higher margins from projects in Mainland China and business in the provision of interactive voice response services and SMS, thus effectuating overall gross profit margin of the Group to improve from 14.53% to 25.66%.

With the consolidation of operating results of both MIHL and TCM, selling and administrative expenses increased from HK\$17,846,000 to HK\$27,658,000 during the Three-Month Period. The Group reported a net loss of HK\$5,110,000 as compared to a net profit of HK\$13,181,000 for the same corresponding period during 2004, the latter of which has been attributable primarily to the recognition of a deemed disposal gain of HK\$10,769,000 from the separate listing of MIHL. Included in the net loss reported during the Three-Month Period, HK\$1,879,000 and HK\$897,000 have been ascribed to MIHL and TCM respectively with loss attributable to the core business of the Group amounted to HK\$2,334,000.

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

As at 31st March, 2005, the relevant interests and short positions of the Directors or Chief Executive in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which 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 took or deemed to have taken under such provisions of the SFO) or required pursuant to section 352 of the SFO, to be entered in the register referred to therein or required, pursuant to rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

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

Name of Director	Long position/ short position	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of share options) held (Note 8)	Approximate % of the issued share capital of the Company
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)	—	14,002,000	2.28%
Yim Hong	Long position	Personal (Note 4)	7,357,500	900,000	1.35%
Kuan Kin Man	Long position	Personal (Note 5)	12,262,500	900,000	2.14%
Monica Maria Nunes	Long position	Personal (Note 6)	2,452,500	900,000	0.55%
Fung Kee Yue Roger	Long position	Personal (Note 7)	210,000	—	0.03%

Notes:

- (1) As at 31st March, 2005, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL, a company wholly-owned by José Manuel dos Santos as trustee of Santos' Family Trust.
- (2) The personal interest of José Manuel dos Santos comprised 600,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest was held by José Manuel dos Santos as beneficial owner.
- (3) Options were granted by the Company under a share option scheme. Since José Manuel dos Santos was interested in more than one-third of the issued share capital of the Company at 31st March, 2005, he was deemed to have a short position in 14,002,000 underlying Shares.
- (4) The personal interest of Yim Hong comprised 7,357,500 Shares and 900,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest was held by Yim Hong as beneficial owner.
- (5) The personal interest of Kuan Kin Man comprised 12,262,500 Shares and 900,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- (6) The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 900,000 underlying Shares in respect of share options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- (7) The personal interest of Fung Kee Yue Roger comprised 210,000 Shares. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.
- (8) Each of the Directors held the same number of share options shown as at 1st January, 2005. The share options were granted on 30th June, 2003 and exercisable from 30th June, 2003 to 29th June, 2006 at HK\$0.42 per Share.

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31st March, 2005, the following persons (other than a Director or Chief Executive) had interests or short positions in the Shares and underlying Shares which were recorded in the register required to be kept under section 336 of the SFO:

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

Name	Long position/ short position	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of share options) held	Approximate % of the issued share capital of the Company
ERL	Long position	Corporate interest (Note 1)	293,388,000	—	47.80%
	Short position	Corporate interest (Note 2)	—	14,002,000	2.28%
LRL	Long position	Corporate interest (Note 1)	293,388,000	—	47.80%
	Short position	Corporate interest (Note 2)	—	14,002,000	2.28%
Lei Hon Kin (Note 3)	Long position	Family interest	293,988,000	—	47.89%
	Short position	Corporate interest	—	14,002,000	2.28%

Notes:

- (1) As at 31st March, 2005, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL.
- (2) Options were granted by the Company under a share option scheme. Since both ERL and LRL were interested in more than one-third of the issued share capital of the Company as at 31st March, 2005, they were deemed to have a short position in 14,002,000 underlying Shares.
- (3) Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

THE AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE BY CONTROLLING SHAREHOLDERS

The loan of a principal amount of US\$15,000,000 (approximately HK\$116,700,000) is to be repaid by VHL in four equal half-yearly instalments of US\$3,750,000 (approximately HK\$29,175,000), due in March and September, 2005 and March and September, 2006 respectively. The first repayment was paid in March, 2005 and so the outstanding principal amount as at 31st March, 2005 was US\$11,250,000 (approximately HK\$87,525,000).

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 six months thereafter. VHL shall repay the loan drawn down by four consecutive equal semi-annual instalments commencing on the date eighteen months after the date of the Agreement. Notwithstanding the above, all outstanding amount under the Agreement shall be repaid on the date thirty-six months after the date of the Agreement. The interest rate is London interbank offered rate plus 1.35%.

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 each of the Lenders that each of them shall procure that:

- (i) the trustee of Santos' Family Trust (being the Controlling Shareholder) 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 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.

BREACH OF THE AGREEMENT

The following financial covenants under the Guarantee were, inter alia, breached upon publication of the audited accounts for the eighteen-months ended 31st December, 2004:

- (i) the consolidated tangible net worth of the Company as at 31st December, 2004 was less than HK\$380,000,000 as agreed with the Lenders;
- (ii) the total consolidated liabilities of the Company as at 31st December, 2004 was higher than 125% of the consolidated tangible net worth agreed with the Lenders;
- (iii) the ratio of consolidated current assets of the Company to its consolidated current liabilities as at 31st December, 2004 was lower than the ratio of 1.6:1 as agreed with the Lenders; and
- (iv) the ratio of dividend payout to the profits according to the audited accounts for the eighteen-months ended 31st December, 2004 was higher than the ratio of 50% as agreed with the Lenders.

The Company is in discussion with the Lenders as to whether the loan should be repaid prior to its term or if it could be refinanced. In any event and for the time being, the Company will, with the consensus of the Lenders, deposit an amount of US\$11,250,000 (approximately HK\$87,525,000) with the Agent pending the outcome of such discussions.

As at 31st March, 2005, the Group (excluding MIHL) had bank balances and cash of approximately HK\$147,721,000 (excluding a US\$5,000,000 (approximately HK\$38,900,000) yield-enhanced bond) so that even after making the deposit to the Agent or making full repayment, the operations of the Group would not be materially and adversely affected.

This section is made pursuant to rule 17.21 of the GEM Listing Rules.

The Company will comply with its obligations under rule 17.23 of the GEM Listing Rules and make disclosure in its subsequent half-year, quarterly and annual reports for as long as the circumstances giving use to the disclosure obligations under rules 17.20 and 17.21 continue to exist.

COMPETING INTERESTS

None of the Directors or any person who is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Group and which is (or are) able as a practical matter, to direct or influence the management of the Company has an interest in a business, which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of the Shares during the Three-Month Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the Three-Month Period.

DEFINITIONS

“Agent”	Standard Chartered Bank (Hong Kong) Limited
“Agreement”	the loan facility agreement effective on 26th September, 2003 entered into between VHL and the Lenders referring to the US\$15,000,000 (approximately HK\$116,700,000) term loan facility
“Associated Corporation(s)”	corporation(s): (a) which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or (b) (not being subsidiaries of the Company) in which the Company has an interest in the shares of a class comprised in its share capital exceeding in nominal value one-fifth of the nominal value of the issued share of that class
“Board”	the board of the Directors
“BVI”	the British Virgin Islands

“Chief Executive”	a person who either alone or together with one or more other persons is or will be responsible under the immediate authority of the Board for the conduct of the business of the Company
“Company”	Vodatel Networks Holdings Limited
“Controlling Shareholder”	any person who is or group of persons who are together entitled to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Code on Takeovers and Mergers approved by the Securities and Futures Commission, established under section 3 of the Securities and Futures Commission Ordinance (Cap. 24 of the Laws of Hong Kong) and continuing in existence under section 3 of the SFO, as amended from time to time, as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the Company or who is or are in a position to control the composition of a majority of the Board
“Director(s)”	the director(s) of the Company
“ERL”	Eve Resources Limited, a company incorporated in BVI with limited liability
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
“Gazetted Newspapers”	those newspapers which are, from time to time, specified in the list of newspapers issued and published in the Gazette for the purposes of section 71A of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) as amended from time to time by the Chief Secretary of the Government of Hong Kong

“GEM”	the Growth Enterprise Market operated by the Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, made by the Exchange from time to time
“GEM Website”	the internet website operated by the Exchange for the purposes of GEM
“Group”	the Company and its subsidiaries
“Guarantee”	the deed of guarantee and indemnity executed by the Company in favour of the Lenders on 26th September, 2003 in respect of the obligations of VHL under the Agreement
“HK cents”	Hong Kong cents, where 100 HK cents equal HK\$1
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC (not applicable to The Stock Exchange of Hong Kong Limited)
“Lenders”	Banco Comercial de Macau S.A., CITIC Ka Wah Bank Limited, Industrial and Commercial Bank of China (Asia) Limited, HSH Nordbank AG, Hong Kong Branch and the Agent
“LRL”	Lois Resources Limited, a company incorporated in BVI with limited liability
“Macao”	the Macao Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM

“Mainland China”	the PRC, other than the regions of Hong Kong, Macao and Taiwan
“Member(s)”	duly registered holder(s) from time to time of the Shares
“MIHL”	MegaInfo Holdings Limited, incorporated in Bermuda with limited liability, an indirectly owned subsidiary of the Company and whose shares of HK\$0.01 each in its capital are listed on GEM
“PRC”	The People’s Republic of China
“Santos’ Family Trust”	the existing trust whereby the family members of José Manuel dos Santos are the discretionary objects and which assets include a controlling stake of 47.80% of the issued share capital of the Company
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“SMS”	short message services
“Spain”	The Kingdom of Spain
“Substantial Shareholder”	in relation to a company means a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
“TCM”	Teleconcept-Multimedia N.V., incorporated in the Netherlands with limited liability and an indirectly owned subsidiary of the Company
“The Netherlands”	The Kingdom of the Netherlands
“Three-Month Period”	the three months ended 31st March, 2005

“US\$”

United States Dollar, the lawful currency of the United States of America

“VHL”

Vodatel Holdings Limited, incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company

By order of the Board
José Manuel dos Santos
Chairman

Hong Kong, 12th May, 2005

Executive Directors:
José Manuel dos Santos
Yim Hong
Kuan Kin Man
Monica Maria Nunes

Independent non-executive Directors:
Chui Sai Cheong
Lo King Chiu Charles
Fung Kee Yue Roger