



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(incorporated in Bermuda with limited liability)

Websites: <http://www.vodatelsys.com>; www.irasia.com/listco/hk/vodatel

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

Highlights

- Announced our seventh year of profit making record, with turnover growing 9.9% from HK\$546.9 million to HK\$601.1 million and net profit standing at HK\$57.0 million for the financial year
- Successful expanded our territorial reach to Guangxi Zhuang Autonomous Region in the west and Hebei in the north, marking Vodatel's footprints in 18 provinces, municipalities and autonomous regions in the PRC
- Majority of our existing customers adopting the integrated network concept, with handsome volume of contracts being awarded
- Awarded aggregate contracts of HK\$17.7 million from various mobile bureaus under Guangdong China Mobile to interface our self-developed digital image processing management solution with their Business and Operation Support System
- Riverstone subscribed 100% of the US\$3.5 million of convertible bonds issued by the Company
- Invested into MTel to strengthen our position in wireless communications
- Successfully launched the network management system, VCMS, jointly developed by Vodatel and Vodatel Crossland, in the PRC

RESULTS

The Board of Directors is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 30th June 2002, together with the comparative audited figures for the corresponding year ended 30th June 2001 as follows:

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> <i>(restated)</i>
Turnover	2	601,108	546,915
Cost of sales		<u>(448,860)</u>	<u>(397,933)</u>
Gross profit		152,248	148,982
Other revenues	2	4,237	11,773
Selling expenses		(13,539)	(5,745)
Administrative expenses		(72,585)	(57,622)
Impairment of goodwill	1(c)	<u>—</u>	<u>(26,668)</u>
Operating profit	3	70,361	70,720
Finance cost	4	(173)	—
Share of losses of associated companies		<u>(876)</u>	<u>(2,155)</u>
Profit before taxation		69,312	68,565
Taxation	5	<u>(10,557)</u>	<u>(14,429)</u>
Profit after taxation		58,755	54,136
Minority interests		<u>(1,763)</u>	<u>—</u>
Profit attributable to shareholders		<u><u>56,992</u></u>	<u><u>54,136</u></u>
Dividends	6	<u><u>9,120</u></u>	<u><u>12,160</u></u>
Basic earnings per share	7	<u><u>9.37 cents</u></u>	<u><u>8.84 cents</u></u>
Fully diluted earnings per share	7	<u><u>9.33 cents</u></u>	<u><u>N/A</u></u>

Movement in reserves of the Group during the year were as follows:

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2000	92,364	—	1,399	35,549	—	44,622	173,934
Effect of adopting SSAP 9 (revised)	—	—	—	—	—	9,225	9,225
At 1st July 2000 (restated)	92,364	—	1,399	35,549	—	53,847	183,159
Effect of adopting SSAP 30 and SSAP 31	—	—	—	—	—	26,668	26,668
Repurchase of shares	(5,774)	702	—	—	—	(702)	(5,774)
Deficit on revaluation of non-trading securities	—	—	(1,254)	—	—	—	(1,254)
Profit attributable to shareholders	—	—	—	—	—	54,136	54,136
1999/2000 Final dividend paid	—	—	—	—	—	(9,225)	(9,225)
Goodwill written off on acquisition of subsidiaries	—	—	—	—	—	(15,697)	(15,697)
At 30th June 2001	<u>86,590</u>	<u>702</u>	<u>145</u>	<u>35,549</u>	<u>—</u>	<u>109,027</u>	<u>232,013</u>
Representing:							
2000/2001 Final dividend proposed							12,160
Reserves at 30th June 2001							<u>219,853</u> <u>232,013</u>
Company and subsidiaries	86,590	702	145	35,549	—	111,625	234,611
Associated companies	—	—	—	—	—	(2,598)	(2,598)
At 30th June 2001	<u>86,590</u>	<u>702</u>	<u>145</u>	<u>35,549</u>	<u>—</u>	<u>109,027</u>	<u>232,013</u>

Movement in reserves of the Group during the year were as follows: (Continued)

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2001 (as previously reported)	86,590	702	145	35,549	—	96,867	219,853
Effect of adopting SSAP 9 (revised)	—	—	—	—	—	12,160	12,160
At 1st July 2001 (restated)	86,590	702	145	35,549	—	109,027	232,013
Deficit on revaluation of non-trading securities	—	—	(2,517)	—	—	—	(2,517)
Exchange differences arising on translation of accounts of overseas subsidiaries and an associated company	—	—	—	—	(10)	—	(10)
Profit attributable to shareholders	—	—	—	—	—	56,992	56,992
2000/2001 Final dividend paid	—	—	—	—	—	(12,160)	(12,160)
2001/2002 Interim dividend paid	—	—	—	—	—	(6,080)	(6,080)
At 30th June 2002	<u>86,590</u>	<u>702</u>	<u>(2,372)</u>	<u>35,549</u>	<u>(10)</u>	<u>147,779</u>	<u>268,238</u>
Representing:							
2001/2002 Final dividend proposed							3,040
Reserves at 30th June 2002							<u>265,198</u>
							<u>268,238</u>
Company and subsidiaries	86,590	702	(2,372)	35,549	(10)	151,264	271,723
Associated companies	—	—	—	—	—	(3,485)	(3,485)
At 30th June 2002	<u>86,590</u>	<u>702</u>	<u>(2,372)</u>	<u>35,549</u>	<u>(10)</u>	<u>147,779</u>	<u>268,238</u>

Segment reporting

Primary reporting format - business segments

The group is organised into two main business segments:

- Design, sale and implementation of data networking systems and provision of related engineering services
- Sale of goods

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

	Design, sale and implementation of data networking systems and provision of related engineering services 2002 HK\$'000	Sale of goods 2002 HK\$'000	Group 2002 HK\$'000
Turnover	<u>521,582</u>	<u>79,526</u>	<u>601,108</u>
Segment results	<u>69,994</u>	<u>15,931</u>	85,925
Unallocated income			4,237
Unallocated cost			<u>(19,801)</u>
Operating profit			70,361
Finance cost			(173)
Share of losses of associated companies			<u>(876)</u>
Profit before taxation			69,312
Taxation			<u>(10,557)</u>
Profit after taxation			58,755
Minority interests			<u>(1,763)</u>
Profit attributable to shareholders			<u>56,992</u>
Segment assets	275,777	26,392	302,169
Investments in associated companies			6,591
Unallocated assets			<u>243,515</u>
Total assets			<u>552,275</u>
Segment liabilities	86,733	11,732	98,465
Unallocated liabilities			<u>124,774</u>
Total liabilities			<u>223,239</u>
Unallocated capital expenditure			5,743
Unallocated depreciation			2,210
Unallocated impairment charge			1,674
Other non-cash expenses	117	26	143
Unallocated non-cash expenses			2,996

Primary reporting format - business segments (Continued)

	Design, sale and implementation of data networking systems and provision of related engineering services 2001 HK\$'000	Sale of goods 2001 HK\$'000	Group 2001 HK\$'000 (restated)
Turnover	<u>471,885</u>	<u>75,030</u>	<u>546,915</u>
Segment results	<u>84,670</u>	<u>16,366</u>	101,036
Unallocated income			11,773
Unallocated costs			<u>(42,089)</u>
Operating profit			70,720
Share of losses of associated companies			<u>(2,155)</u>
			68,565
Profit before taxation			
Finance cost			—
Taxation			<u>(14,429)</u>
Profit after taxation			54,136
Minority interests			<u>—</u>
Profit attributable to shareholders			<u>54,136</u>
Segment assets	248,273	34,662	282,935
Investments in associated companies			6,609
Unallocated assets			<u>258,905</u>
Total assets			<u>548,449</u>
Segment liabilities	135,513	22,527	158,040
Unallocated liabilities			<u>97,598</u>
Total liabilities			<u>255,638</u>
Unallocated capital expenditure			23,403
Unallocated depreciation			2,188
Unallocated impairment charge			26,668
Other non-cash expenses	310	47	357
Unallocated non-cash expenses			97

Secondary reporting format - geographical segment

The group is engaged in the design, sale and implementation of data networking systems and provision of related engineering services, and sale of goods in two main geographical areas, namely the PRC and Macau.

There are no sales or other transactions between the geographical segments.

	Turnover 2002 <i>HK\$'000</i>	Segment result 2002 <i>HK\$'000</i>	Total assets 2002 <i>HK\$'000</i>	Capital expenditure 2002 <i>HK\$'000</i>
The PRC	541,906	81,300	113,402	—
Macau	<u>59,202</u>	<u>4,625</u>	<u>188,767</u>	<u>—</u>
	<u>601,108</u>	85,925	302,169	—
Unallocated income		4,237		
Unallocated cost		<u>(19,801)</u>		
Operating profit		<u>70,361</u>		
Investments in associated companies			6,591	
Unallocated assets			<u>243,515</u>	
Total assets			<u>552,275</u>	
Unallocated capital expenditure				<u>5,743</u>

Secondary reporting format - geographical segment (Continued)

	Turnover 2001 HK\$'000	Segment result 2001 HK\$'000 (restated)	Total assets 2001 HK\$'000	Capital expenditure 2001 HK\$'000
The PRC	541,603	99,247	85,388	—
Macau	<u>5,312</u>	<u>1,789</u>	<u>197,547</u>	<u>—</u>
	<u>546,915</u>	101,036	282,935	—
Unallocated income		11,773		
Unallocated cost		<u>(42,089)</u>		
Operating profit		<u>70,720</u>		
Investments in associated companies			6,609	
Unallocated assets			<u>258,905</u>	
Total assets			<u>548,449</u>	
Unallocated capital expenditure				<u>23,403</u>

Notes to the accounts

1. Basis of preparation of the accounts

- (a) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). The accounts are prepared under the historical cost convention except that non-trading securities are stated at fair value.
- (b) In the current year, the group adopted the following revised or new Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001 except stated otherwise:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting

SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

In the current year, the group early adopted the following revised SSAPs issued by the HKSA which will be effective for accounting periods commencing on or after 1st January 2002 except stated otherwise:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cashflow statement

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary and associated company at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions on or after 1st July 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life but not exceeding 20 years.

Goodwill on acquisitions that occurred prior to 1st July 2001 was written off against reserves. The group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31. In accordance with the transitional provisions of SSAP30, where an impairment loss has arisen since the date of acquisition on goodwill previously written off against reserves, and previously there was not a policy to recognise such impairment losses, this change in accounting policy has been applied retrospectively and the impairment losses have been recognised as a prior year adjustment. As a result, the group has retrospectively restated and decreased its previously reported net profit for the year ended 30th June 2001 by approximately HK\$26,668,000.

2. Revenues and Turnover

Revenue from the design, sale and implementation of data networking systems and the provision of related engineering services is recognised upon the satisfactory completion of installation, which generally coincides with the time when the systems are delivered to customers.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

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. Revenues recognised during the year are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		
Design, sale and implementation of data networking systems and provision of related engineering services	521,582	471,885
Sale of goods	<u>79,526</u>	<u>75,030</u>
	<u><u>601,108</u></u>	<u><u>546,915</u></u>
Other revenues		
Dividend income	649	686
Interest income	<u>3,588</u>	<u>11,087</u>
	<u><u>4,237</u></u>	<u><u>11,773</u></u>
Total revenues	<u><u>605,345</u></u>	<u><u>558,688</u></u>

3. Operating profit

Operating profit is stated after crediting and charging the followings:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Crediting		
Net exchange gain	<u>1,654</u>	<u>—</u>
Charging		
Auditors' remuneration		
- current year	1,217	1,200
- under provision in previous year	—	235
Cost of inventories	418,716	394,417
Depreciation of fixed assets	2,210	2,188
Impairment of investments in non-trading securities	1,674	—
Loss on disposal of fixed assets	2	97
Net exchange loss	—	1,163
Operating leases in respect of land and buildings	2,674	1,932
Provision for doubtful debts	—	357
Provision for advance to an associated company	2,996	—
Research and development costs	159	146
Retirement benefit costs	653	502
Staff costs (including directors' emoluments)	<u>31,659</u>	<u>27,023</u>

4. Finance cost

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on convertible bonds	<u>173</u>	<u>—</u>

5. Taxation

The taxation charge comprises:

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax (<i>note a</i>)	—	—
Macau complementary profits tax (<i>note b</i>)	10,274	14,429
PRC profits tax (<i>note c</i>)	<u>283</u>	<u>—</u>
	<u>10,557</u>	<u>14,429</u>

- (a) 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 year.
- (b) Macau complementary profits tax has been calculated at 15.75% on the estimated assessable profits of group companies operating in Macau.
- (c) The PRC profits tax has been calculated at 33% on the estimated assessable profits of group companies operating in the PRC.
- (d) There was no material unprovided deferred taxation for the year (2001: Nil).

6. Dividends

	2002 HK\$'000	2001 HK\$'000
Interim, paid for 2001/2002, of HK\$0.01 (2000/2001: nil) per ordinary share	6,080	—
Final, proposed for 2001/2002, of HK\$0.005 (2000/2001: HK\$0.02) per ordinary share	<u>3,040</u>	<u>12,160</u>
	<u>9,120</u>	<u>12,160</u>

Notes:

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 30th June 2000 and 2001 were HK\$9,225,000 and HK\$12,160,000 respectively. Under the group's new accounting policy, these have been written back against opening reserves as at 1st July 2000 and 2001 and are now charged in the periods in which they were declared.
- (b) At a meeting held on 16th September 2002, the directors proposed a final dividend of 0.5 HK cent (2001: 2.0 HK cents) per share to be paid to the shareholders whose names appear on the register of members of the Company on 5th November 2002. The dividend will be payable on 19th November 2002. This proposed dividend is

not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 30th June 2002. Together with the interim dividend of 1.0 HK cent, total dividends per share for the year will amount to 1.5 HK cents (2001: 2.0 HK cents).

- (c) The register of members of the Company will be closed from Friday, 1st November 2002 to Tuesday, 5th November 2002, both days inclusive, during which period no transfer of shares may be registered. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Abacus Share Registrars Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration, not later than 4:00 p.m. on Thursday, 31st October 2002.

7. Earnings per share

The calculation of basic earnings per share is based on the group's profit attributable to shareholders of HK\$56,992,000 (2001(restated): HK\$54,136,000) and the weighted average of 607,984,000 shares (2001: 612,184,331 shares) in issue during the year.

The calculation of fully diluted earnings per share is based on adjusted profit of HK\$57,137,753 on the assumption that the weighted average of all convertible bonds in issue and all share options outstanding, except for share options having anti-dilutive effect, had been converted and had saved finance costs thereon and the weighted average of 612,211,940 shares issued and issuable.

Fully diluted earnings per share for the year ended 30th June 2001 was not disclosed as there were no dilutive potential ordinary shares.

MANAGEMENT DISCUSSION & ANALYSIS

Industry Overview

In line with the gradual opening of the market after the PRC's accession to the World Trade Organisation and the mandate of the Chinese Government to increase competition and improve level of services among market players, the telecommunications industry has been undergoing restructuring under the administration of the Ministry of Information Industry. During the period under review, the fixed-line operator, China Telecom, is split into two telecommunications giants, China Telecom, governing the southern part of the PRC, and China Network Communications, covering 10 provinces in the northern part of the PRC and to merge with China Netcom and China Jitong. Due to the restructuring and merger among players of the industry, capital expenditures by telecommunications service providers have resulted in a temporary lag. We believe that as the impact of the restructuring and integration settles, infrastructure spending will impel.

Review of Operations

Data Network Infrastructure

We continued to achieve steady results in our core business — the construction of public data infrastructure for telecommunications service providers in the PRC. Despite the reorganization of the telecommunications industry, the growing economy in the PRC has continued to drive an on-going expansion and upgrade of public data networks by major telecommunications service providers to support the robust business activities.

The integrated data networks concept, which promotes efficient use of network resources on a unified platform, has been widely accepted and adopted by majority of our customers. Major projects awarded to us during the year included the HK\$11.1 million contract by Guizhou China Telecom to construct Guizhou's provincial broadband ATM network and to integrate with its existing Digital Data Networks ("DDN") and the HK\$20.2 million contract by Hunan China Telecom to upgrade and integrate its DDN and ATM/Frame Relay networks, not to mention the HK\$124.0 million contract from Guangdong China Telecom and an aggregate contracts of HK\$30.0 million from Shanghai China Telecom to expand and upgrade their existing integrated networks. The combination of our technical capability and market knowledge has further allowed us to expand our territorial reach. With the award of the HK\$27.7 million contract by Guangxi China Telecom to expand and realign their DDN and ATM/Frame Relay networks in the Guangxi Zhuang Autonomous Region and the HK\$26.9 million contract by Hebei China Telecom to expand its ATM networks and to integrate with its DDN in the Hebei Province, our customer installation base now spans in 18 provinces, municipalities and autonomous regions in the country.

Given the huge potential of the broadband IP Metropolitan network market in the PRC and encouraged by our previous success in entering the broadband IP Metropolitan network construction arena, we continued to enrich our array of products to strengthen our competency in securing more broadband IP network projects by taking up the distributorship of Riverstone for its core routing switches. In addition, to become the destination of choice for network solutions, we actively identified innovative value-added products and applications to expand our product offerings. During the year, in addition to representing Alcatel, Juniper, Riverstone and Extreme for their respective core network infrastructure equipment, we have taken up Packeteer's application performance infrastructure systems, Mirapoint's internet messaging software and messaging server infrastructure equipment, and Inktomi's scalable network infrastructure software solutions.

Technical Services

We continued to build and upgrade our technical support team, using our proven capability and commitment to provide quality after-sales services to differentiate ourselves from our competitors in the market. With an expanded customer installation base, we are in the process of setting up new representative offices in the PRC in addition to our existing 13 representative offices. Our established nationwide network of representatives offices not only allow Vodatel to promptly response to customers' enquires and deliver quality services, in particular trouble shooting, but also allows Vodatel to maintain a solid relationship network with local telecommunications service providers in the PRC and to promptly identify business opportunities as they arise.

Wireless Communications

To well position ourselves in the area of wireless/mobile communications, in addition to our joint venture with Korean-based Lucky Goldstar Group, we have invested into Mobile Telecom Network (Holdings) Limited ("MTel") to leverage on its expertise in data compression, acceleration, device specific reformatting and multiple applications integration. Using MTel's platform, speed of data transmission via an array of customer premises equipment, such as mobile phones, PDAs, laptops and other mobile devices, will be greatly enhanced. Capitalizing on our established marketing and relationship network, joint promotion of MTel's products and services to China Mobile in various provinces currently underway.

Self-developed Products

During the year, we successfully promoted our self-developed VodaImage to Guangdong China Mobile and secured contracts with seven mobile bureaus under Guangdong China Mobile, including Huizhou, Dongguan, Shunde, Foshan, Guangzhou, Shantou and Zhanjiang, totaling HK\$17.7 million. VodaImage is selected as the digital image processing management solution to interface with the Business and Operation Support System of Guangdong China Mobile, complementing the rollout of an array of services offered such as billing, process management and customer support.

To expand the applications of VodaImage, we are in the process of evaluating various options to integrate VodaImage with our self-developed monitoring and surveillance system, VodaMax, into applications for other vertical markets, such as restricted area monitoring solution for governmental authorities and full traffic control and surveillance solution for traffic patrol.

Business of Vodatel Crossland has been hampered as companies cautiously undertake e-commerce activities. Nevertheless, we successfully installed New Economy Trading Platform (“NETP”) at the Government Communication Services Bureau of the Government of Macau to enable their e-operating processes, which has become the reference site for the promotion of our NETP. Furthermore, we started the selling of the network management system, VCMS, jointly developed by Vodatel and Vodatel Crossland, in the PRC, including to Internet Service Providers to manage internet data traffic.

PROSPECTS

This year marked the 10th anniversary of Vodatel. Looking back, we are one of the pioneers to move into telecommunications market in the PRC. With the launch of the PRC’s first public DDN in Shanghai in 1992, we are proud that over 10 years, Vodatel has built the public data networks in 18 provinces, municipalities and autonomous regions in the PRC and working in collaboration with the local telecommunications service providers to support their public data networks.

Over the years, we have put our prime focus in the carriers’ market and constantly drive ourselves to better understand the ever changing market, listening to our customers, identifying best-of-the-breed products, providing prompt and quality services and strengthening our own technical know-how. We have used these qualities as building blocks to lay a solid foundation and bring Vodatel to where we are today — a trusted technical partner and a reputable network solutions provider in the industry.

Our ultimate goal to enhance shareholders’ value remains our highest priority. With the gradual liberation of the telecommunications market, we are confident that our proven track record will allow us to continue to build a successful story and to achieve steady results. First, increasing revenue per customer and expanding our customer base. Through an expanded product offerings and diversification into areas that complement our core networking business and by capitalizing on our market knowledge, on-the-ground experience and strong relationship networks, Vodatel is well positioned to be selected as the network solutions provider by our existing customers and by other local and foreign telecommunications service providers as they excel their growth in the PRC. Second, managing our margins. We will cautiously invest into research and development of self-branded products and select good quality business opportunities that will strengthen our bottom-line. Third, controlling cost. We will undergo exercises to combine and realign resources to achieve cost savings, yet quality services will not be compromised.

FINANCIAL REVIEW

Turnover and Net Profit

During the year, despite the restructuring of the telecommunications industry, we achieved a turnover of HK\$601.1 million, representing an increase of 9.9% over the preceding year. This increase has been attributable to the growth in both of our project sales, which involved in the design and implementation of data networking systems and provision of related engineering services, and trading sales. While gross margin of trading sales levelled, margin of project sales has been affected by higher market competition, effectuating an overall gross margin of 25.3%.

Our strong cash position allowed us to enjoy hefty interest income in the past. Due to declining interest rates, total interest income for the year has been significantly reduced by HK\$7.5 million. Coupled with higher total staff costs to further strengthening the sales and technical teams and provisions made to our e-commerce investment caused by a slowdown in e-commerce activities, hence leading to an increase in selling and administrative expenses, net profit for the year amounted to HK\$57.0 million. Shareholders' funds reached HK\$329.0 million, translating to a return on equity of 17.3% and net asset value of HK\$0.54 per share.

Capital Structure, liquidity and financial resources

The Group does not have either short-term or long-term borrowings, other than the US\$3.5 million 1.90875% convertible bonds issued to Riverstone. Of the US\$3.5 million (HK\$27.2 million) convertible bonds, US\$2.25 million (HK\$17.5 million) of convertible bonds will mature on 28th February 2003 whereas US\$1.25 million (HK\$9.7 million) will mature on 28th February 2004. With the convertible bonds, gearing ratio (total borrowings/shareholders' funds) stood at 8.3%.

The Group continued to maintain strong liquidity position. As of 30th June 2002, cash and bank deposit of the Group stood at approximately HK\$213.4 million (2001: HK\$225.5 million), translating to cash per share of HK\$0.35.

Employee Information

As at 30th June 2002, the Group had 212 employees of which 75, 15 and 122 employees were based in Macau, Hong Kong and the PRC respectively. Employee costs, excluding Directors' emolument, totaled HK\$17.8 million

(2001: HK\$11.0 million). The Group remunerates employees based on their performance, experience and prevailing industry practices. It had adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares. It also offers benefits such as professional training programs to staff to enhance their sense of loyalty.

Capital commitments and significant investments

As at 30th June 2002, the Group did not have any significant capital commitments and significant investments.

Material acquisition /disposals

The Group did not have any material acquisitions or disposals during the reporting period.

Charges on group assets

As at 30th June 2002, the Group did not have any charges on group assets.

Details of material acquisitions and disposals

During the year, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Details of future plans for material investment or capital assets

The Directors currently do not have any future plans for material investment or capital assets.

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars, Macau dollars, US dollars and Renminbei. The Directors considers the impact of foreign exchange exposure of the Group is minimal.

Contingent liabilities

At 30th June 2002, the company has provided corporate guarantee of HK\$407,000,000 (2001: HK\$190,943,000) in favour of certain banks to secure banking facilities granted to certain subsidiaries.

COMPARISON OF BUSINESS OBJECTIVES AS SET OUT IN PROSPECTUS DATED 16TH FEBRUARY 2000 WITH ACTUAL BUSINESS PROGRESS IN RESPECT OF THE SIX MONTHS PERIOD TO 30TH JUNE 2002

Business Objectives

Actual Business Progress

Revenue and business development

- | | |
|--|---|
| <ul style="list-style-type: none"> ● Continue the business development activities from the last period | <ul style="list-style-type: none"> ● Continued to be awarded projects for the construction of public data networks. With the award of the HK\$27.7 million contract by Guangxi China Telecom and the HK\$26.9 million by Hebei China Telecom, we successfully extended our foothold into 2 new territories, bringing our customer installation base from 16 to 18 provinces, municipalities and autonomous regions |
| <ul style="list-style-type: none"> ● Continue to expand sales from integrated data networks comprising DDN and Frame Relay/ATM, Internet access equipment, mobile networking solutions, broadband mobile data solutions and capture business opportunities facilitated by the PRC's entry into the WTO in the PRC | <ul style="list-style-type: none"> ● Customers continued to adopt the integrated data networks concept with contracts being awarded included the HK\$20.2 million contract by Hunan China Telecom, the HK\$8.9 million contract by Shandong China Telecom and the HK\$11.1 million contract by Guizhou China Telecom |
| <ul style="list-style-type: none"> ● Generate business from sales of IP over SDH systems in the PRC | <ul style="list-style-type: none"> ● Commenced promotion of IP over SDH to telecommunications service providers |
| <ul style="list-style-type: none"> ● Expand the scope of operating data communications services in the PRC to the extent as allowed under the PRC law | <ul style="list-style-type: none"> ● Business model to roll out data communications services in the PRC under study |

Technical and engineering support

- Expand the training facilities in the PRC
- On hold as current training facilities in Guangzhou is sufficient to provide training to our customers and internal technical engineers

R&D

- Continue the R&D activities from the previous period
- Vodatel Crossland, to interface the IP routers and IP switches from other vendors into the network management system, allowing the network management system to handle data traffic routing from equipment from an expanded array of vendors
- Research third-generation mobile communications applications
- To work with LG TOPS to study the market development of third-generation mobile technology and applications

Acquisitions, joint ventures and collaborations

- Continue to explore collaboration opportunities in the PRC and overseas
- Exploring collaboration opportunities with various business partners in selected countries in the Asia Pacific region

Subsidiaries, representative offices and branches

- Implement the decision made in the previous period
- Under review and to be in conjunction with our expansion plan into the Asia Pacific region

USE OF PROCEEDS

The Group raised approximately HK\$153 million (including Over-allotment Option) upon listing of the Company.

Comparison of the use of proceeds as stated in the Prospectus with actual application:

Use of proceeds as stated in the Prospectus

- Approximately HK\$10 million for the expansion of market share into the selected vertical markets in the PRC through marketing and promotion
- Approximately HK\$10 million for the set up or expansion of new offices in Macau, Hong Kong and representative offices in the PRC
- Approximately HK\$25 million of the market development and the promotion of mobile telecommunications
- Approximately HK\$25 million for the development of ISP, e-commerce and Internet-related products and business; and Approximately HK\$20 million for the R&D in and the promotion of Internet access equipment
- Approximately HK\$10 million for the enhancement of the R&D department and for the development of products under its own brand name

Application of proceeds from the initial share offer on 25th February 2000

- Expenses incurred for the expansion of market share into selected vertical markets in the PRC financed through internal generated income
- Approximately HK\$5 million for the set up of new office in Macau and setup and expansion of representative offices in the PRC
- Approximately HK\$15 million for the acquisition and operating expenditures of our investment in LG TOPS, which engages in CDMA Wireless Local Loop systems and terminals, and MTel, which specializes in data compression and acceleration technology
- Approximately HK\$33 million for the acquisition and operating expenditures of our investment in Vodatel Crossland, which is engaged in the research and development of e-commerce solutions and hardware applications
- Approximately HK\$2 million for the development and enhancement of self-developed products

- Approximately HK\$54 million of the balance of the net proceeds for additional working capital
- Balance of net proceeds have been deposited in licensed banks in Hong Kong and will be used for strategic investments and general working capital

Application of proceeds during the current financial year:

- Approximately HK\$3.5 million for the set up of new office in Macau and set up and expansion representative offices in the PRC;
- Approximately HK\$3 million for the acquisition and operating expenditures of our investment in MTel, which specializes in data compression and acceleration technology; and
- Approximately HK\$1 million for the development and enhancement of self-developed products.

The Group plans to apply the balance of net proceeds, amounting to approximately HK\$98 million, for the following uses in the next financial period:

- Approximately HK\$5 million for the set up or expansion of new offices in Macau and Asia Pacific region and representative offices in the PRC
- Approximately HK\$7 million of the market development and the promotion of mobile telecommunications;
- Approximately HK\$5 million for the research and development of new products and enhancement of products under our own brand name; and
- Approximately HK\$81 million of the balance of the net proceeds for additional working capital.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 30th June 2002, the interests of the Directors and their associates in the share capital of the Company and its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Name of Directors	Number of shares	Nature of interest
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	2,452,500	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. Santos, as trustee of a discretionary family trust.

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

On 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.

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

	Date of share options granted	Number of shares options granted	Exercise price HK\$
Mr. José Manuel dos Santos	16th August 2000	290,000	1.19
	1st August 2001	522,000	0.79
Mr. Yim Hong	16th August 2000	290,000	1.19
	1st August 2001	522,000	0.79
Mr. Kuan Kin Man	16th August 2000	290,000	1.19
	1st August 2001	522,000	0.79
Ms. Monica Maria Nunes	16th August 2000	290,000	1.19
	1st August 2001	522,000	0.79

As at 30th June 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 year 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 June 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.

SPONSOR'S INTERESTS

The Company's sponsor, Core Pacific - Yamaichi Capital Limited ("Core Pacific - Yamaichi"), its directors, employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules), were interested in 130,000 shares of HK\$0.10 each in the share capital of the Company as at 30th June 2002.

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

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 year, 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, 16th September 2002

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the day of its posting.