

The Exchange takes no responsibility for the contents of this announcement, 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.



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

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.

BUSINESS AND FINANCIAL HIGHLIGHTS FOR THE EIGHTEEN-MONTH PERIOD

- Operating in a frustrating mix of conditions, the Group registered total turnover of HK\$589,883,000 and net loss of HK\$173,625,000 for the Eighteen-Month Period
- The Board does not propose any dividend for the Eighteen-Month Period
- Successful separate listing of MIHL on GEM
- Completed the acquisition of TCM and CAOCL
- Increased equity stake in MTel from 7.3% to 14.6% and convertible bonds holding from HK\$1,600,000 to HK\$3,200,000
- Continued to successfully secure contracts from various telecommunications service providers in the PRC
- Benefitted from the robust market in Macao with various contracts awarded by gaming operators and Government of Macao

EIGHTEEN-MONTH PERIOD RESULTS

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

		Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
	<i>Note</i>		
Turnover	2	589,883	388,794
Cost of sales		<u>(551,922)</u>	<u>(301,986)</u>
Gross profit		37,961	86,808
Other revenue	2	5,415	3,169
Other operating income		311	2,717
Selling expenses		(14,026)	(8,773)
Administrative expenses		(131,496)	(65,795)
Other operating expenses		<u>(73,334)</u>	<u>(1,473)</u>
Operating (loss)/profit	3	(175,169)	16,653
Deemed disposal gain for separate listing of MIHL	4	17,953	—
Impairment of goodwill		(25,931)	(840)
Finance costs	5	(4,346)	(635)
Share of losses of associated companies		<u>(1,507)</u>	<u>(2,488)</u>
(Loss)/profit before taxation		(189,000)	12,690
Taxation	6	<u>(1,902)</u>	<u>(2,658)</u>
(Loss)/profit after taxation		(190,902)	10,032
Minority interests		<u>17,277</u>	<u>562</u>
(Loss)/profit attributable to Members		<u>(173,625)</u>	<u>10,594</u>
Dividends	7	<u>3,446</u>	<u>9,207</u>
(Loss)/earnings per Share (HK cents)			
- Basic	8	<u>(28.29)</u>	<u>1.74</u>
- Diluted	8	Not <u>applicable</u>	<u>1.74</u>

NOTES:

1. **Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA. They have been prepared under the historical cost convention except that non-trading securities are stated at fair value.

In the Eighteen-Month Period, the Group adopted SSAP 12 “Income taxes” issued by the HKICPA which is effective for accounting periods commencing on or after 1st January, 2003. The adoption of the new SSAP has no material impact in the result of the Group.

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the accounts for the Eighteen-Month Period. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. **Turnover, revenues and segment information**

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.

Revenue from the provision of digital image processing management solutions is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers and the title has passed.

Revenue from the provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS is recognised when the services are rendered.

Operating lease rental income is recognised on a straight-line basis.

Commission income and management fee income are recognised when the services are rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

The Group is principally engaged in the design, sale and implementation of data networking systems, provision of related engineering services and sale of goods, provision of digital image processing management solutions and multimedia value-added services via IVR, interactive internet solutions and premium SMS. Revenues recognised during the Eighteen-Month Period are as follows:

	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Turnover		
Design, sale and implementation of data networking systems and provision of related engineering services	502,441	321,453
Provision of digital image processing management solutions	17,694	—
Provision of multimedia value-added services via IVR interactive internet solutions and premium SMS	39,850	—
Sale of goods	29,246	67,341
Operating lease rental income	<u>652</u>	<u>—</u>
	<u>589,883</u>	<u>388,794</u>
Other revenue		
Commission income	31	668
Dividend income from listed investments	112	650
Interest income	3,124	1,851
Management fee income	1,478	—
Others	<u>670</u>	<u>—</u>
	<u>5,415</u>	<u>3,169</u>
Total revenues	<u><u>595,298</u></u>	<u><u>391,963</u></u>

Due to the acquisition of TCM in Europe and the separate listing of MIHL, two more segments has arisen. For internal financial reporting purposes, management has changed certain segment reporting presentations. The major change is combining two similar segments (design, sale and implementation of data networking systems, provision of related engineering services and sale of goods) into one. The comparative figures have been restated to conform with the presentation of current year.

Primary reporting format - business segments

The Group is organised into three main business segments:

- Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods
- Provision of digital image processing management solutions
- Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS

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

Secondary reporting format - geographical segments

The three business segments are managed in three main geographical areas, namely Mainland China, Hong Kong and Macao, and Europe.

There are no sales between the geographical segments.

Primary reporting format - business segments

	Eighteen-Month Period			
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods <i>HK\$'000</i>	Provision of digital image processing management solutions <i>HK\$'000</i>	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	<u>532,339</u>	<u>17,694</u>	<u>39,850</u>	<u>589,883</u>
Segment results	<u>(118,883)</u>	<u>(21,487)</u>	<u>(15,352)</u>	<u>(155,722)</u>
Unallocated income				5,726
Unallocated cost				<u>(25,173)</u>
Operating loss				(175,169)
Deemed disposal gain for separate listing of MIHL				17,953
Impairment of goodwill	(7,780)	—	(18,151)	(25,931)
Finance costs				(4,346)
Share of losses of associated companies				<u>(1,507)</u>
Loss before taxation				(189,000)
Taxation				<u>(1,902)</u>
Loss after taxation				(190,902)
Minority interests				<u>17,277</u>
Loss attributable to Members				<u>(173,625)</u>
Segment assets	373,725	19,124	112,826	505,675
Investments in associated companies				1,630
Unallocated assets				<u>77,865</u>
Total assets				<u>585,170</u>
Segment liabilities	172,133	4,879	70,814	247,826
Unallocated liabilities				<u>164,631</u>
Total liabilities				<u>412,457</u>
Capital expenditure	11,955	13,423	39,416	64,794
Depreciation	6,241	612	1,188	8,041
Amortisation	1,310	1,563	4,466	7,339
Impairment charge	10,015	9,900	18,151	38,066
Other non-cash expenses	100,816	—	—	100,816

Primary reporting format - business segments (Continued)

	Twelve months ended 30th June, 2003			
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods <i>HK\$'000</i>	Provision of digital image processing management solutions <i>HK\$'000</i>	Provision of multimedia value-added services in IVR, interactive internet solutions and premium SMS <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	<u>388,794</u>	<u>—</u>	<u>—</u>	<u>388,794</u>
Segment results	<u>28,408</u>	<u>—</u>	<u>—</u>	<u>28,408</u>
Unallocated income				5,886
Unallocated cost				<u>(17,641)</u>
Operating profit				16,653
Impairment of goodwill	(840)	—	—	(840)
Finance costs				(635)
Share of losses of associated companies				<u>(2,488)</u>
Profit before taxation				12,690
Taxation				<u>(2,658)</u>
Profit after taxation				10,032
Minority interests				<u>562</u>
Profit attributable to Members				<u>10,594</u>
Segment assets	466,198	—	—	466,198
Investments in associated companies				5,257
Unallocated assets				<u>20,367</u>
Total assets				<u>491,822</u>
Segment liabilities	73,354	—	—	73,354
Unallocated liabilities				<u>78,014</u>
Total liabilities				<u>151,368</u>
Capital expenditure	8,353	—	—	8,353
Depreciation	2,503	—	—	2,503
Impairment charge	840	—	—	840
Other non-cash expenses	10,236	—	—	10,236
Unallocated non-cash expenses				176
Unallocated impairment charge				1,328

Secondary reporting format - geographical segments

	Eighteen-Month Period			
	Turnover <i>HK\$'000</i>	Segment result <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Mainland China	400,906	(94,376)	193,929	1,368
Hong Kong and Macao	149,127	(45,993)	198,920	24,010
Europe	<u>39,850</u>	<u>(15,353)</u>	<u>112,826</u>	<u>39,416</u>
	<u>589,883</u>	(155,722)	505,675	<u>64,794</u>
Unallocated income		5,726		
Unallocated cost		<u>(25,173)</u>		
Operating loss		<u>(175,169)</u>		
Investments in associated companies			1,630	
Unallocated assets			<u>77,865</u>	
Total assets			<u>585,170</u>	

	Twelve months ended 30th June, 2003			
	Turnover <i>HK\$'000</i>	Segment result <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Mainland China	334,641	27,863	246,906	3,408
Hong Kong and Macao	54,153	545	219,292	4,945
Europe	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>388,794</u>	28,408	466,198	<u>8,353</u>
Unallocated income		5,886		
Unallocated cost		<u>(17,641)</u>		
Operating profit		<u>16,653</u>		
Investments in associated companies			5,257	
Unallocated assets			<u>20,367</u>	
Total assets			<u>491,822</u>	

3. Operating loss

Operating loss is stated after charging the following:

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Amortisation of goodwill	5,506	145
Amortisation of software licence	1,833	—
Cost of inventories	439,452	272,614
Depreciation of fixed assets	8,041	2,503
Loss on disposal of non-trading securities	2,690	—
Provision of doubtful debts	51,170	—
Staff costs (excluding Directors' emoluments)	57,631	19,838
Write-down of inventories to net realisable value	<u>49,646</u>	<u>10,236</u>

4. Deemed disposal gain for separate listing of MIHL

On 19th January, 2004, Shares of MIHL were listed and traded on GEM by the issuance of new ordinary Shares. As a result, the shareholding of the Company in MIHL has been diluted to 38.95%, which resulted in a gain of approximately HK\$17,953,000 arising from this deemed disposal.

5. Finance costs

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Interest on bank loans and overdrafts — wholly repayable within five years	3,073	—
Interest on other loan - wholly repayable within five years	1,087	—
Interest on convertible bonds	<u>186</u>	<u>635</u>
	<u>4,346</u>	<u>635</u>

6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the Eighteen-Month Period. In 2003, the Government of Hong Kong enacted a change in the profits tax from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the Eighteen-Month Period at the rates of taxation prevailing in the regions in which the Group operates.

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

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Current taxation		
- Hong Kong profits tax	126	—
- Macao complementary profits tax	26	2,392
- Mainland China profits tax	1,600	266
- Overseas taxation	29	—
- Under-provision in prior years	<u>117</u>	<u>—</u>
	1,898	2,658
Share of taxation attributable to associated companies	<u>4</u>	<u>—</u>
Taxation charge	<u><u>1,902</u></u>	<u><u>2,658</u></u>

The taxation on the (loss)/profit before taxation of the Group differs from the theoretical amount that would arise using the taxation rate of the region of the Group as follows:

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
(Loss)/profit before taxation	<u>(189,000)</u>	<u>12,690</u>
Notional tax calculated at the rates applicable in the regions concerned	(35,497)	1,479
Income not subject to taxation	28,465	(1,109)
Expenses not deductible for taxation purposes	8,553	2,288
Mainland China deemed income tax	260	—
Share of taxation of associated companies	4	—
Under-provision in prior years	<u>117</u>	<u>—</u>
Taxation charge	<u><u>1,902</u></u>	<u><u>2,658</u></u>

7. Dividends

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Interim, paid for Eighteen-Month Period, of HK\$0.005 (Twelve months ended 30th June, 2003: HK\$0.01) per Share	3,069	6,138
Special interim, paid for Eighteen-Month Period (<i>Note</i>)	377	—
Final, proposed for Eighteen-Month Period, of HK\$Nil (Twelve months ended 30th June, 2003: HK\$0.005) per Share	<u>—</u>	<u>3,069</u>
	<u><u>3,446</u></u>	<u><u>9,207</u></u>

Note:

On 19th December, 2003, the Board approved the payment of a special interim dividend as part of the proposal for the separate listing of MIHL by way of a distribution in specie in respect of an aggregate of 13,375,000 Shares of MIHL to Members, where every 46 Shares were entitled to 1 Share of MIHL.

The Board did not recommend dividend payment for the Eighteen-Month Period.

8. (Loss)/earnings per Share

The calculation of basic loss per Share is based on the loss of the Group attributable to Members of HK\$173,625,000 (twelve months ended 30th June, 2003: profit of HK\$10,594,000) and the weighted average number of 613,819,000 Shares (twelve months ended 30th June, 2003: 609,966,301 Shares) in issue during the Eighteen-Month Period.

No diluted earnings per Share for the Eighteen-Month Period is presented as the exercise of the outstanding share options of the Company would have an anti-dilutive effect. The weighted average of 609,969,068 Shares of last year included all share options outstanding, except for share options having anti-dilutive effect, on the assumption that all share options had been converted. All convertible bonds in last year have been excluded as having anti-dilutive effect.

9. Reserves

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st July, 2003	97,676	702	(4,158)	35,549	108	49	149,146	279,072
Surplus on revaluation of non-trading securities	—	—	5,516	—	—	—	—	5,516
Reserves transferred to profit and loss account upon disposal of non- trading securities	—	—	3,957	—	—	—	—	3,957
Exchange differences	—	—	—	—	2,926	—	—	2,926
Loss attributable to Members	—	—	—	—	—	—	(173,625)	(173,625)
Twelve months ended 30th June, 2003 Final dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
Eighteen-Month Period Interim dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
Eighteen-Month Period Special interim dividend paid	—	—	—	—	—	—	(377)	(377)
At 31st December, 2004	<u>97,676</u>	<u>702</u>	<u>5,315</u>	<u>35,549</u>	<u>3,034</u>	<u>49</u>	<u>(30,994)</u>	<u>111,331</u>
Company and subsidiaries	97,676	702	5,315	35,549	3,034	49	(23,614)	118,711
Associated companies	—	—	—	—	—	—	(7,380)	(7,380)
At 31st December, 2004	<u>97,676</u>	<u>702</u>	<u>5,315</u>	<u>35,549</u>	<u>3,034</u>	<u>49</u>	<u>(30,994)</u>	<u>111,331</u>

9. Reserves (continued)

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July, 2002	86,590	702	(2,372)	35,549	(10)	—	147,779	268,238
Issue 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	—	—	—	—	118	—	—	118
Provision of Macao statutory reserve	—	—	—	—	—	49	(49)	—
Profit attributable to Members	—	—	—	—	—	—	10,594	10,594
Twelve months ended 30th June, 2002 Final dividend paid	—	—	—	—	—	—	(3,040)	(3,040)
Twelve months ended 30th June, 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>
Representing: 2002/2003 Final dividend proposed								3,069
Reserves at 30th June, 2003								<u>276,003</u> <u>279,072</u>
Company and subsidiaries	97,676	702	(4,158)	35,549	108	49	155,014	284,940
Associated companies	—	—	—	—	—	—	(5,868)	(5,868)
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>

REVIEW OF BUSINESS ACTIVITIES

Mainland China — Adopting new rules to repeat a successful history

Increasing market competition from equipment manufacturers and capital spending of telecommunications service providers outside the product domain of the Group attributed to the challenges the Group faced in its core business in Mainland China. With changing parameters in the market where the Group used to operate and diversification of business to different geography, revenue derived from its premium customer base, as a percentage of the total turnover of the Group, dropped from approximately 86.1% to approximately 68.0%.

During the Eighteen-Month Period, the Group has undergone a series of cost cutting measures, including the consolidation and combination of the number of representative offices from twelve to seven and reduction of the workforce that focused primarily in the design, sale and implementation of data networking systems in Mainland China by 28%.

Capitalizing on its most valuable asset, that is, a premium installed customer base, the Group has added the self-developed OSS to the product portfolio of the Group to enhance the overall margin of its business in Mainland China. During the Eighteen-Month Period, the OSS has successfully been installed at various telecommunications service providers, including Guangdong China Telecom, Chongqing China Telecom, Wuxi China Telecom and Xinjiang China Telecom. To improve the marketability of the OSS and expand its applications, the Group has further improved the functionalities and upgraded the OSS to support data networks built from an increasing number of local and international equipment vendors.

Macao — Capitalizing a leading position in the home territory

The strong business momentum brought from the opening up of the gaming industry, the upcoming 2005 East Asian Games and the mandate of the Government of Macao to promote e-government have created numerous opportunities for the Group during the Eighteen-Month Period. Capitalizing on its leadership position in the territory and with a strong team of software developers and engineers, the Group successfully secured various projects in the territory, including infrastructural projects from gaming operators, the Macao 4th East Asian Games Organizing Committee and the Government of Macao.

During the Eighteen-Month Period, partnering with Motorola Asia Pacific Limited, the Group has been awarded the digital TETRA radio system project for the police and security force of the Government of Macao. The TETRA radio system project, which amounted to HK\$60,600,000, is expected to be completed during 2005.

Europe — Reshaping into a leading player in fixed and mobile interactivity

The acquisition of TCM marked the entry of the Group into the provision of multimedia value-added interactivity services in Europe. While TCM will remain its focus on the provision of infotainment via IVR and SMS platforms, offering information and entertainment services such as ringtones and games downloads, tarots reading, chat room, call&win programs, etc., the Group has identified the following elements to reposition TCM to become a leading player in the provision of fixed and mobile value-added services:

- Create an efficient and reliable connectivity platform for infotainment delivery and distribution;
- Develop new and innovative ideas for mobile marketing and promotion;
- Source and distribute new contents over existing and new channels;
- Develop branded products and contents of TCM for distribution globally;
- Introduce innovative applications in the game and entertainment market; and
- Establish presence in emerging markets such as Mainland China.

With value-added services and content provisions becoming the driving engines of revenue growth, the key to success also rests with the ability to establish close collaboration with mobile and fixed-line operators. Therefore, in addition to the establishment of task forces to achieve each of the elements as identified above, the Group has realigned its marketing teams to focus on maintaining closer relationship with both existing strategic telecommunications partners and potentially new ones.

REVIEW OF OPERATING RESULTS

Change of Financial Year End

In order to be conterminous with the financial year end date of the subsidiaries acquired during the Eighteen-Month Period and to realign the taxation year end of its subsidiaries, the financial year end date of the Company was changed from 30th June to 31st December. In consequence, the comparative amounts for the consolidated profit and loss account and the related notes to the accounts are not directly comparable.

Turnover and Profitability

During the Eighteen-Month Period, total turnover of the Group amounted to HK\$589,883,000. Turnover from Mainland China used to be the major contributor of the Group. However, during the Eighteen-Month Period, with increased business activities from Macao and turnover brought from the acquisition of TCM, turnover derived from Mainland China dropped, as a percentage of the total turnover of the Group, from approximately 86.1% to approximately 68.0%, whereas turnover derived from Hong Kong/Macao and Europe now represented approximately 25.3% and 6.8% of the total turnover of the Group respectively. As turnover for the Eighteen-Month Period consolidated turnover of TCM for only six months and turnover of CAOCL for only four months, the Group expects the mix derived from Hong Kong/Macao and Europe to change during 2005.

Gross profit of the Group decreased from approximately 22.3% to approximately 6.4%, explained by increasing market competition from equipment manufacturers, projects in Macao and trading of mobile phones carrying lower margins, and write-down of inventories by HK\$49,646,000 to take into account of slow moving data networking equipment as a result of difficult market conditions in Mainland China.

Should the Group exclude the write-down of inventories, provision for doubtful debts, impairment, depreciation and amortization, the Group registered an operating loss of HK\$46,838,000, of which HK\$11,569,000 and HK\$12,765,000 pertained to operating loss of MIHL and TCM respectively. Operating loss attributed to the segment of design, sale and implementation of data networking systems, provision of related engineering services and sale of goods amounted to HK\$22,504,000.

With the recognition of a deemed disposal gain of HK\$17,953,000 arose from the separate listing of MIHL, the Group registered a net loss for the Eighteen-Month Period of HK\$173,625,000.

Capital Structure, Liquidity and Financial Resources

During the Eighteen-Month Period, the cash balances of the Group have been strengthened by the successful raising of the US\$15,000,000 syndicated term loan. Cash was deployed against the retirement of the US\$1,250,000 convertible bonds previously issued to Riverstone Networks, Inc., repayment of the short-term bank loans raised to support the working capital of a subsidiary in Mainland China, increase of our equity participation and subscription of additional convertible notes of MTel and the acquisition of TCM and CAOCL. For the transactions related to MTel, TCM and CAOCL, please also refer to section “Details of Material Acquisitions and Disposals”.

As at 31st December, 2004, gearing ratio (total borrowings / Members’ funds) of the Group stood at 85%. Included in total were US\$15,000,000 (approximately HK\$116,700,000) syndicated term loan, HK\$16,200,000 of working capital and a loan incurred by TCM of HK\$14,200,000. Although the Group has total borrowings of HK\$147,100,000, cash on hand as at 31st December, 2004, excluding US\$5,000,000 financial bonds purchased to enhance the yield of the Group, amounted to HK\$168,800,000.

The Group acknowledged that pursuant to the announcement of its results for the Eighteen-Month Period, certain financial covenants under the loan facility agreement effective on 26th September, 2003 entered into between VHL and the Lenders referring to the US\$15,000,000 term loan facility are breached. The Group has maintained sufficient cash balances to repay the outstanding term loan facility in the event the Company fail to obtain consent from the Lenders to waive such breaches.

Employees’ Information

As at 31st December, 2004, the Group had 343 employees, of which 118, 16, 167 and 42 employees were based in Macao, Hong Kong, Mainland China and Europe respectively. Employee costs, excluding Directors’ emoluments, totaled HK\$57,631,000 for the Eighteen-Month Period.

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

The Company adopted a share option scheme, whereby certain employees of the Group may be granted options to acquire the Shares. Details of the share option scheme are set out under the section “Share Options”.

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

Capital Commitments and Significant Investments

As at 31st December, 2004, the Group did not have any significant capital commitments and significant investments, other than those set out under the paragraph “Details of Material Acquisitions and Disposals” below.

Charges on Group Assets

As at 31st December, 2004, the Group did not have any charges on assets of the Group.

Details of Material Acquisitions and Disposals

During the Eighteen-Month Period, the Group acquired 7.3% equity shareholding and convertible notes in the principle amount of HK\$1,600,000 of MTel for consideration of HK\$15,700,000, acquired 60% equity shareholding of TCM for consideration of €2,300,000 (approximately HK\$24,403,000), injected €2,300,000 (approximately HK\$24,403,000) shareholder’s loans into TCM and acquired 100% equity shareholding of CAOCL for consideration of MOP5,800,000 (approximately HK\$5,600,000). The Group also disposed 38.95% of MIHL subsequent to the separate listing of MIHL on GEM. Save as disclosed above, the Group had no material acquisitions or disposals.

Details of Future Plans for Material Investment or Capital Assets

On 12th January, 2005, the Group subscribed for approximately €759,000 (approximately HK\$8,053,000) convertible notes issued by TCM. Save as disclosed above, the Directors do not have any future plans for material investment or capital assets.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in HK\$, MOP, US\$, € and Renminbi (the lawful currency of Mainland China). The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

SHARE OPTIONS

Share options were granted to certain Directors, executives and employees under a share option scheme approved by the Members at a special general meeting on 5th November, 2002. Details of the scheme are as follows:

(a) Purpose

The scheme is designed to give executive Directors and senior employees holding an executive, managerial or supervisory position in the Company or any of its subsidiaries an equity interest in the Company in order to enhance long-term Member's value. The granting of options will also help the Company to attract and motivate individuals with experience and ability and to reward individuals for past and future performance.

(b) Qualifying participants

Any full-time employee including any executive Director and directors of its subsidiaries.

(c) Maximum number of Shares

The total number of Shares available for issue under the scheme as at 31st December, 2004 is 61,381,900, representing 10% of the issued share capital of the Company as at 31st December, 2004.

(d) Maximum entitlement of each qualified participant

No option may be granted to any qualified participant which, if exercised in full, would result in the total number of Shares already issued and issuable to him under the scheme exceeding 30% of the aggregate number of Shares for the time being issued and issuable under the scheme.

(e) Options exercisable 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 earlier.

(f) Payment on acceptance of option

Pursuant to the scheme, the grantee shall pay HK\$1 to the Company by way of consideration for the grant.

(g) Basis of determining the exercise price

The exercise price shall be at least the higher of (i) the closing price of Shares on the Exchange as stated in the daily quotation sheet of the Exchange on the date of which options are offered; and (ii) the average closing price of the Shares as stated in the daily quotation sheets of the Exchange for the 5 business days immediately preceding the offer date of which options are offered.

(h) Remaining life of the scheme

The scheme will remain valid until 4th November, 2012.

Details of the share options outstanding as at 31st December, 2004 which have been granted under the scheme are as follows:

Name or category of participant	Options held at 1st July, 2003	Options lapsed during the Eighteen-Month Period	Options held at 31st December, 2004	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
José Manuel dos Santos	600,000	—	600,000	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006
Yim Hong	900,000	—	900,000	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006
Kuan Kin Man	900,000	—	900,000	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006
Monica Maria Nunes	900,000	—	900,000	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006
Continuous contract employees	<u>13,838,000</u>	<u>(2,672,000)</u>	<u>11,166,000</u>	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006

Note

- (i) At the date before the options were granted, 27th June, 2003, the market value per Share was HK\$0.41.

BOARD PRACTICES AND PROCEDURES

Throughout the Eighteen-Month Period, the Company was in compliance with the Board Practices and Procedures as set out in old rules 5.34 to 5.45 of the GEM Listing Rules, which were effective for an accounting period commencing before 1st January, 2005.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for the Formation of an Audit Committee” published by the HKICPA.

The principal activities of the Audit Committee include the review and supervision of the financial reporting process and internal controls of the Group. The Audit Committee comprises the three independent non-executive Directors, namely Chui Sai Cheong, Lo King Chiu Charles and Fung Kee Yue Roger.

The audited consolidated results of the Group for the Eighteen-Month Period have been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DEFINITIONS

“Audit Committee”	the audit committee of the Company
“Board”	the board of the Directors
“CAOCL”	Communications Appliances Ou Chung Limited, incorporated in Macao with limited liability and an indirectly wholly-owned subsidiary of the Company
“Company”	Vodatel Networks Holdings Limited
“Director(s)”	the director(s) of the Company
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
“Eighteen-Month Period”	the eighteen months ended 31st December, 2004

“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
“HK cents”	Hong Kong cents, where 100 HK cents equal HK\$1
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“HKFRS”	financial reporting standards approved by the Council of the HKICPA, and includes all Statements of Standard Accounting Practice and interpretations of HKFRS approved by the HKICPA from time to time
“HKICPA”	the Hong Kong Institute of Certified Public Accountants, incorporated by section 3 of the Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC (not applicable to The Stock Exchange of Hong Kong Limited and the Hong Kong Institute of Certified Public Accountants)
“IVR”	interactive voice response

“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 Standard Chartered Bank (Hong Kong) Limited
“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 are listed on GEM
“MTel”	Mobile Telecom Network (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and its shares of US\$0.01 each in its share capital are listed on GEM
“OSS”	Operation Support System
“PRC”	the People’s Republic of China
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Share(s) of MIHL”	share(s) of HK\$0.01 each in the capital of MIHL
“SMS”	short message services
“SSAP”	Statement of Standard Accounting Practice

“TCM”	Teleconcept-Multimedia N.V., incorporated in the Kingdom of the Netherlands with limited liability and an indirectly owned subsidiary of the Company
“US\$”	United States Dollar, the lawful currency of the United States of America
“VHL”	Vodatel Holdings Limited, incorporated in the British Virgin Islands with limited liability and a directly wholly-owned subsidiary of the Company
“€”	Euro, the lawful currency of the European Union

By order of the Board
José Manuel dos Santos
Chairman

Hong Kong, 14th April, 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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 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.

This announcement will remain on the “Latest Company Announcements” page on the GEM Website for at least seven days from the date of publication and on www.vodatelsys.com.

** For identification purpose only*