

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")**

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

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**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.**

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*This document, 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 GEM of the Exchange ("GEM Listing Rules") 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 document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **BUSINESS AND FINANCIAL HIGHLIGHTS**

- Turnover amounted to HK\$84 million and net profit of HK\$0.7 million for the three months ended 30th September 2003
- Secured the first contract to install the self-developed Operation Support System ("OSS") at Guangdong China Telecom
- Finalized a business collaboration with a local partner to engage in the provision of large-scale public and wide area networking solutions in Vietnam
- Healthy financial position with cash balances amounting HK\$148 million
- Successfully raised a US\$15 million 3-year term loan

## FIRST QUARTER RESULTS

On behalf of the Board of the Directors (the “Board”) of Vodatel Networks Holdings Limited (the “Company”), I am pleased to present the operating results of the Company and its subsidiaries (collectively, the “Group”) for the three months (“Three-Month Period”) ended 30th September 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:

		<b>Three months ended 30th September</b>	
		<b>2003</b>	<b>2002</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	83,715	86,893
Cost of sales		(64,492)	(63,967)
Gross profit		19,223	22,926
Other revenues		204	705
Selling and administrative expenses		(17,627)	(16,681)
Operating profit		1,800	6,950
Finance cost		(198)	(130)
Share of losses of associated companies		(276)	(275)
Profit before taxation		1,326	6,545
Taxation	4	(209)	(1,032)
Profit after taxation		1,117	5,513
Minority interests		(415)	186
Profit attributable to the shareholders		702	5,699
Dividends		—	—
Earnings per share (HK cents)	5		
— Basic		0.1	0.9
— Diluted		0.1	1.0

## UNAUDITED STATEMENT OF CHANGES IN RESERVES

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

	Three months ended 30th September 2003							
	Capital Investment			Merger reserve	Exchange reserve	Statutory reserve	Retained earnings	Total
	Share premium	redemption reserve	revaluation reserve					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July 2003	97,676	702	(4,158 )	35,549	108	49	149,146	279,072
Profit attributable to shareholders	—	—	—	—	—	—	702	702
Exchange differences arising on translation of accounts of overseas subsidiaries	—	—	—	—	(45)	—	—	(45)
Surplus on revaluation of non-trading securities	—	—	8,340	—	—	—	—	8,340
At 30th September 2003	97,676	702	4,182	35,549	63	49	149,848	288,069

*Notes:*

### 1. Basis of preparation

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). In preparation for the listing of the shares of the Company on GEM, a group reorganisation was effected whereby the Company became the holding company of the Group. The shares of the Company were listed on GEM on 25th February 2000.

The combined results have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

All significant intra-group transactions and balances have been eliminated on combination.

### 2. Principal accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30th June 2003.

### 3. Turnover

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. Turnover recognized during the period are as follows:

	<b>Three months ended 30th September</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Design and implementation of data networking systems and provision of related engineering services	60,706	67,207
Sale of goods	23,009	19,686
Total turnover	83,715	86,893

### 4. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any estimated assessable Hong Kong profits for the period. Macau complimentary profits tax has been calculated at 15.75% on the estimated assessable profits of group companies operating in Macau. The profits tax in mainland China has been calculated at 33% on the estimated assessable profits of group companies operating in mainland China.

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

	<b>Three months ended 30th September</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	—	—
Macau complimentary profits tax	74	1,032
Mainland China profits tax	135	—
	209	1,032

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

## 5. Earnings per share

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

	<b>Three months ended 30th September</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share	702	5,699
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	46	109
	<hr/>	<hr/>
Earnings for the purpose of diluted earnings per share	748	5,808
	<hr/> <hr/>	<hr/> <hr/>
	'000	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	613,819	607,984
Effect of dilutive potential ordinary shares:		
Share options	—	(3,843)
Convertible bonds	4,863	7,218
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Weighted average number of ordinary shares for the purpose of diluted earnings per share	618,682	611,359
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## 6. Share Capital

	<b>Authorised Ordinary shares of HK\$0.1 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 30th September 2003 and 30th September 2002	<u>2,000,000,000</u>	<u>200,000</u>
<b>Issued and fully paid Ordinary shares of HK\$0.1 each</b>		
	<i>No. of shares</i>	<i>HK\$'000</i>
At 30th September 2002	607,984,000	60,798
Issue of share on exercise of convertible bonds	<u>5,835,000</u>	<u>584</u>
At 30th September 2003	<u>613,819,000</u>	<u>61,382</u>

### INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Three-Month Period (2002: Nil).

## **BUSINESS REVIEW**

### **Data Networks Infrastructure**

Although we have witnessed the lags from the restructuring of the telecommunications industry to gradually settle, we anticipated that the remaining of Year 2003 to be challenging for telecommunications players. While market competition has continued to put pressure on net margins, we continued to secure recurring business from our premium customer base, which comprised primarily of telecommunications service providers located in 20 provinces, municipalities and autonomous regions in China, for the upgrade and expansion of their data networks. Major upgrade and expansion projects awarded to us during the Three-Month Period included a HK\$10.4 million contract from Hunan China Telecom, a HK\$12.8 million from Shanghai China Telecom, a HK\$4.2 million contract from Hebei China Telecom and a HK\$9.5 million contract from Guangdong China Telecom.

During the Three-Month Period, in addition to realigning and consolidating our resources to penetrate into new customer groups, we have also finalized a partnership arrangement with a local partner to provide networking solutions to telecommunications service providers in Vietnam. This partnership, which combines the local presence and relationship networks of our local partner and the financial capabilities and technical experience of the Group in the construction of large-scale public and wide area networks, is another demographic move of the Group to become a regional player in the Asia Pacific Region.

### **Macau**

The Macau SAR Government actively promoting e-government and preparing for the 2005 East Asian Games and the new gaming operators constructing new casinos and resorts have created a favourable business environment and numerous opportunities in Macau. During the Three-Month Period, we have commenced the development of the electronic government infrastructure integration solution for the Macau SAR Government and the installation of the voice, public address, access control, security, computer and networking systems at a major hotel. With the installation of the structural cabling system for a gaming operator at one of its prime sites to commence in due course, these projects will become reference sites of the Group, allowing the Group to further strengthen its well established position in Macau and to capture new business opportunities from the government and gaming operators.



## **Self-developed Products**

Our partnership in Shanghai, which principally engages in the research, design, development, integration, marketing and sales of OSS, has successfully secured its first contract during the Three-Month Period. This contract from Guangdong China Telecom, not only signifies that the software has become a marketable and saleable product, but once again, proves that the Group's premium customer base provides a solid foundation for the Group to expand its revenue base.

During the Three-Month Period, we have also commenced the enhancement of the OSS. Our objective is to develop a software that allows telecommunications service providers to efficiently and effectively manage their data networks connected by equipment from multi-vendors by deploying a single OSS.

## **FINANCIAL REVIEW**

With Year 2003 continuing to be a challenging year, the Group registered turnover of HK\$84 million for the Three-Month Period, representing a mere drop of 3.7% over the corresponding period last year. Nevertheless, with market competition putting pressure on net margins, gross profit margin declined to 23%. During the period, through realigning and streamlining resources, severance payments resulted in an increase in selling and administration expenses. Coupled with the expenses incurred by our partnership in Shanghai that engages in the development of OSS, the Group reported net profit of HK\$0.7 million for the Three-Month Period.

The Group continued to maintain a healthy capital structure. Cash on hand amounted to HK\$148 million with debts including bank borrowings of HK\$9.6 million raised to facilitate the operating activities of our subsidiary in mainland China and the US\$1.25 million convertible bonds issued to Riverstone Networks, Inc. maturing on 28th February 2004. In September 2003, we successfully raised a US\$15 million 3-year term loan (for further details, please refer to the section headed "Loan agreements with covenants relating to specific performance by the controlling shareholders"). These funds will further strengthen the Group's financial standing and well prepare the Group to pursue business expansion through acquisitions.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th September 2003, the interests of the directors in the shares and underlying shares, all of which are long positions, of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company were as follows:

	Number of ordinary shares/ underlying shares held			Percentage of shareholding
	Personal interests	Corporate interests	Total	
Mr. José Manuel dos Santos	600,000 (note (a))	293,388,000 (note (e))	293,988,000	48%
Mr. Yim Hong	8,257,500 (note (b))	—	8,257,500	1%
Mr. Kuan Kin Man	13,162,500 (note (c))	—	13,162,500	2%
Ms. Monica Maria Nunes	3,352,500 (note (d))	—	3,352,500	1%

Notes:

- (a) The personal interest of Mr. José Manuel dos Santos comprises 600,000 underlying shares in respect of share options granted by the Company to him, the details of which are stated in the section headed "Share Options". The aforesaid interest is held by Mr. José Manuel dos Santos as beneficial owner.
- (b) The personal interest of Mr. Yim Hong comprises 7,357,500 shares and 900,000 underlying shares in respect of share options granted by the Company to him, the details of which are stated in the section headed "Share Options". The aforesaid interest is held by Mr. Yim Hong as beneficial owner.
- (c) The personal interest of Mr. Kuan Kin Man comprises 12,262,500 shares and 900,000 underlying shares in respect of share options granted by the Company to him, the details of which are stated in the section headed "Share Options". The aforesaid interest is held by Mr. Kuan Kin Man as beneficial owner.
- (d) The personal interest of Ms. Monica Maria Nunes comprises 2,452,500 shares and 900,000 underlying shares in respect of share options granted by the Company to her, the details of which are stated in the section headed "Share Options". The aforesaid interest is held by Ms. Monica Maria Nunes as beneficial owner.
- (e) These shares are held in the name of Eve Resources Limited. The entire issued share capital in Eve Resources Limited is in turn held by a company wholly-owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust.

Save as disclosed above, no directors, chief executive or their associates had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

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

At 30th September 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued share capital:

<b>Name of shareholder</b>	<b>Number of ordinary shares</b>	<b>Percentage of shareholding</b>
Eve Resources Limited	293,388,000	47.8%

The entire issued share capital in Eve Resources Limited is in turn held by a company wholly-owned by Mr. José Manuel dos Santos, whose interests in the shares of the company are disclosed in the section headed "Directors' interests in equity or debt securities".

Save as disclosed above, at 30th September 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed in the section headed "Directors' interests in equity or debt securities".

## **LOAN AGREEMENTS WITH COVEVANTS RELATING TO SPECIFIC PERFORMANCE BY THE CONTROLLING SHAREHOLDERS**

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

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

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

- (i) the trustee of the existing trust whereby the family members of Mr. José Manuel dos Santos are the discretionary objects and which assets include a controlling stake of 47.8% of the issued share capital of the Company (“Santos’ Family Trust”) (being the controlling shareholder (as defined in the GEM Listing Rules) of the Company) shall at all times have as its trust assets, directly or indirectly, not less than 35% of each class of the issued voting share capital in the Company and that the service agreement between Mr. José Manuel dos Santos and the Company dated 12th August 2002 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<sup>2</sup>/<sub>3</sub>% of the loan or if no advances have been made or are outstanding the aggregate of whose commitment exceed 66<sup>2</sup>/<sub>3</sub>% of the undrawn balance of the commitment (such consent not to be unreasonably withheld or delayed).

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

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

## **SHARE OPTIONS**

On 26th September 2001, the Exchange announced certain amendments to Chapter 23 (Share Option Schemes) of the GEM Listing Rules, which became effective on 1st October 2001. Under the transitional arrangements stipulated in the amended Chapter 23 of the GEM Listing Rules, options already granted before 1st October 2001 are not affected by the amended rules and the Company may have to alter the terms of the existing share option scheme, or adopt a new share option scheme before further options could be granted. In order to comply with the amendments to the GEM Listing Rules and the announcement of the Exchange, the Company terminated the old scheme and adopted a new share option scheme (the "Scheme") at a Special General Meeting held on 5th November 2002.

On 30th June 2003, 17,178,000 share options under the old scheme were cancelled and under the Scheme, 3,300,000 share options were granted to the directors and 13,838,000 share options were granted to the employees of the Company. The exercise price is HK\$0.42. Details of number of share options granted to each director are stated in the section headed "Director's interests in equity or debt securities". None of the share options granted had been exercised as at 30th September 2003.

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

## **COMPETING INTERESTS**

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

## **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, who is the Chairman of the Company, and the two independent non-executive directors, Mr. Chui Sai Cheong and Mr. Lo King Chiu Charles.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

By order of the Board  
**Vodatel Networks Holdings Limited**  
**José Manuel dos Santos**  
*Chairman*

Hong Kong, 13th November 2003