

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.

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 of the Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document, for which the directors of Vodatel Networks Holdings Limited 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 FOR THE THREE-MONTH PERIOD ENDED 31ST DECEMBER 2003

- Witnessed and experienced a gradual recovery to our core data networking business with turnover of HK\$101.4 million and net profit of HK\$2.6 million
- Payment of an interim dividend of HK0.5 cent, with dividend yield of 1.2%
- Secured an aggregate of HK\$2.8 million service contracts by our technical support team
- MegaInfo Holdings Limited successfully listed on GEM, raising net proceeds of approximately HK\$23 million

INTERIM RESULTS

On behalf of the Board of the Directors ("Board") of Vodatel Networks Holdings Limited ("Company"), I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ("Three-Month Period") and six months ("Six-Month Period") ended 31st December 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 31st December		Six months ended 31st December	
		2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	2	101,370	197,067	185,085	283,960
Cost of sales		(79,034)	(149,420)	(143,526)	(213,387)
Gross profit		22,336	47,647	41,559	70,573
Other revenues		492	728	696	1,433
Selling and administrative expenses		(18,637)	(24,632)	(36,264)	(41,313)
Operating profit		4,191	23,743	5,991	30,693
Finance cost		(182)	(42)	(380)	(172)
Share of losses of associated companies		(317)	(465)	(593)	(740)
Profit before taxation		3,692	23,236	5,018	29,781
Taxation	4	(581)	(3,675)	(790)	(4,707)
Profit after taxation		3,111	19,561	4,228	25,074
Minority interests		(491)	497	(906)	683
Profit attributable to shareholders		2,620	20,058	3,322	25,757
Dividends	5	6,413	6,080	6,413	6,080
Earnings per share (HK cents)	6				
— Basic		0.4	3.3	0.5	4.2
— Diluted		0.4	3.3	0.5	4.2

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31st DECEMBER 2003

		As at 31st December 2003 (unaudited) HK\$'000	As at 30th June 2003 HK\$'000
	Notes		
Intangible assets		12,101	1,302
Perpetual exclusive licence of a software		11,000	—
Fixed assets		7,496	6,666
Investments in associated companies		4,494	5,257
Deposit on acquisition of subsidiaries		—	8,227
Non-trading securities		36,629	11,668
Current assets			
Inventories		130,575	139,573
Trade and bills receivables	7	197,421	138,048
Other receivables, deposits and prepayments		16,922	17,495
Bank balances and cash		103,637	163,586
		<u>448,555</u>	<u>458,702</u>
Current liabilities			
Trade and bills payables	8	69,504	49,139
Other payables and accruals		22,671	24,215
Convertible bonds		9,725	9,725
Taxation payable		52,687	52,728
Dividend payable	5(a)	3,344	—
Short-term bank loans, unsecured		5,909	9,346
		<u>163,840</u>	<u>145,153</u>
Net current assets		<u>284,715</u>	<u>313,549</u>
Total assets less current liabilities		<u>356,435</u>	<u>346,669</u>
Financed by:			
Share capital	9	61,382	61,382
Reserves	10	283,137	276,003
Proposed dividends	10	3,069	3,069
		<u>347,588</u>	<u>340,454</u>
Shareholders' funds		8,847	6,215
Minority interests		<u>356,435</u>	<u>346,669</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 31st December 2003 (unaudited) <i>HK\$'000</i>	For the six months ended 31st December 2002 (unaudited) <i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	(19,068)	5,866
Net cash outflow from investing activities	(37,444)	(5,864)
Net cash (outflow)/inflow from financing activities	(3,437)	12,150
(Decrease)/increase in cash and cash equivalents	(59,949)	12,152
Cash and cash equivalents at the beginning of the period	163,586	213,360
Cash and cash equivalents at the end of the period	103,637	225,512
Analysis of balances of cash and cash equivalents		
Bank balances and cash	103,637	225,512

CONDENSED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 31st December 2003 (unaudited) HK\$'000	For the six months ended 31st December 2002 (unaudited) HK\$'000
Total equity balance at the beginning of the period	340,454	329,036
Surplus on revaluation of non-trading securities	8,340	—
Group reorganisation	1,934	—
Exchange differences arising on translation of accounts of overseas subsidiaries and an associated company	(49)	(32)
Net gains and losses not recognised in the consolidated profit and loss account	10,225	(32)
	350,679	329,004
Profit attributable to shareholders	3,322	25,757
2001/2002 Final dividend paid	—	(6,080)
2002/2003 Final dividend paid	(3,069)	—
Special interim dividend	(3,344)	—
Total equity balance at the end of the period	347,588	348,681

NOTES TO THE ACCOUNTS

1. Summary of principal accounting policies

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

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

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

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

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

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

2. Segment information

Business segments

An analysis of the turnover and results of the Group for the period by business segments is as follows:

	Six months ended 31st December 2003			Six months ended 31st December 2002		
	Design, sale and implementation of data networking systems and provision of related engineering services HK\$'000	Sale of goods HK\$'000	Group HK\$'000	Design, sale and implementation of data networking systems and provision of related engineering services HK\$'000	Sale of goods HK\$'000	Group HK\$'000
Turnover	154,047	31,038	185,085	232,132	51,828	283,960
Segment results	8,806	3,257	12,063	27,927	10,170	38,097
Unallocated income			696			1,433
Unallocated cost			(6,768)			(8,837)
Operating profit			5,991			30,693
Finance cost			(380)			(172)
Share of losses of associated companies			(593)			(740)
Profit before taxation			5,018			29,781
Taxation			(790)			(4,707)
Profit after taxation			4,228			25,074
Minority interests			(906)			683
Profit attributable to shareholders			3,322			25,757

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

3. Depreciation

During the period, depreciation of HK\$1.5 million (2002: HK\$1.3 million) was charged in respect of the fixed assets of the Group.

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 periods under review.

Macau complimentary profits tax has been calculated at 15.75% on the estimated assessable profits of group companies operating in Macau for the periods under review.

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

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

	Three months ended		Six months ended	
	31st December		31st December	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	—	—	—	—
Macau complimentary profits tax	395	3,675	469	4,707
Mainland China profits tax	186	—	321	—
	<u>581</u>	<u>3,675</u>	<u>790</u>	<u>4,707</u>

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

5. Dividends

	Three months ended		Six months ended	
	31st December		31st December	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Special interim dividend (note (a))	3,344	—	3,344	—
Interim, proposed for 2003/2004, of HK\$0.005 (2002/2003: HK\$0.01) per ordinary share (note (b))	3,069	6,080	3,069	6,080
	<u>6,413</u>	<u>6,080</u>	<u>6,413</u>	<u>6,080</u>

Notes:

- (a) On 19th December 2003, the Board approved the payment of a special interim dividend as part of the proposal for the spin-off of MegalInfo Holdings Limited ("MegalInfo") by way of a distribution in specie in respect of an aggregate of 13,375,000 ordinary shares of nominal value HK\$0.01 each in the capital of MegalInfo ("MegalInfo Shares") to the registered holders of the ordinary shares of the Company, such that one MegalInfo Share for every 46 ordinary shares of the Company in issue.
- (b) The Board have determined that an interim dividend of HK0.5 cent per share (2002: HK1.0 cent per share) should be paid to shareholders of the Company whose names appear in the Register of Members on 5th March 2004.

6. Earnings per share

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

	Three months ended 31st December		Six months ended 31st December	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings				
Earnings for the purpose of basic earnings per share	2,620	20,058	3,322	25,757
Effect of dilutive potential ordinary shares:				
Interest on convertible bonds	46	110	93	219
	<hr/>	<hr/>	<hr/>	<hr/>
Earnings for the purpose of diluted earnings per share	2,666	20,168	3,415	25,976
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	613,819	607,984	613,819	607,984
Effect of dilutive potential ordinary shares:				
Convertible bonds	4,863	10,658	4,863	10,658
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	618,682	618,642	618,682	618,642
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7. Trade and bills receivables

At 31st December 2003, the ageing analysis of the trade and bills receivables were as follows:

	As at 31st December 2003	As at 30th June 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-3 months	77,994	42,985
4-6 months	25,175	19,479
7-12 months	23,640	54,437
Over 12 months	90,087	43,089
	<hr/>	<hr/>
	216,896	159,990
Less: provision	(19,475)	(21,942)
	<hr/>	<hr/>
	197,421	138,048
	<hr/> <hr/>	<hr/> <hr/>

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

8. Trade and bills payables

At 31st December 2003, the ageing analysis of the trade and bills payables were as follows:

	As at 31st December 2003	As at 30th June 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-3 months	44,372	39,129
4-6 months	7,539	2,536
7-12 months	17,229	1,729
Over 12 months	364	5,745
	<hr/>	<hr/>
	69,504	49,139
	<hr/> <hr/>	<hr/> <hr/>

9. Share capital

	Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised		
At 31st December 2003 and 30th June 2003	2,000,000,000	200,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid		
At 31st December 2003 and 30th June 2003	613,819,000	61,382
	<hr/> <hr/>	<hr/> <hr/>

10. 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 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	—	—	8,340	—	—	—	—	8,340
Exchange differences arising on translation of accounts of overseas subsidiaries	—	—	—	—	(49)	—	—	(49)
Group reorganisation	—	—	—	1,934	—	—	—	1,934
Profit attributable to shareholders	—	—	—	—	—	—	3,322	3,322
2002/2003 Final dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
Special interim dividend	—	—	—	—	—	—	(3,344)	(3,344)
At 31st December 2003	97,676	702	4,182	37,483	59	49	146,055	286,206
Representing: 2003/2004 Interim dividend proposed								3,069
Reserves at 31st December 2003								283,137
								286,206
	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
Exchange differences arising on translation of accounts of overseas subsidiaries	—	—	—	—	(32)	—	—	(32)
Profit attributable to shareholders	—	—	—	—	—	—	25,757	25,757
2001/2002 Final dividend paid	—	—	—	—	—	—	(3,040)	(3,040)
At 31st December 2002	86,590	702	(2,372)	35,549	(42)		170,496	290,923

11. Related party transactions

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

	Three months ended 31st December		Six months ended 31st December	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of goods to Zetronic Comunicações Lda (Note (a))	—	17	15	34
Rental charges payable to a director of the Company (Note (b))	192	192	384	294

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

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitments and significant investments

As at 31st December 2003, the Group did not have any significant capital commitments and significant investments.

Material acquisitions and disposals

The Group had no material acquisitions or disposals during the reporting period, other than the acquisition of 100% shareholding in Power Express (Macau) Limited and PE Research and Development Limited for a consideration of HK\$8,227,000.

Employee information

As at 31st December 2003, the Group had 210 employees spreading in Hong Kong, Macau and mainland China. Total remuneration of all employees amounted to HK\$13.9 million.

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

The Group had adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

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

Charges on group assets

As at 31st December 2003, the Group did not have any charges on group assets.

Details of future plans for material investments or capital assets

The Company is now evaluating the market of the provision of interactive voice response systems and short message services and may deploy certain resources for investments in the area should appropriate investment opportunities arise. Save as disclosed above, the directors do not have any future plans for material investments or capital assets.

Foreign exchange exposure

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

Contingent liabilities

As at 31st December 2003, the Group did not have any contingent liabilities.

REVIEW OF BUSINESS ACTIVITIES

Core Business — Data Networks Infrastructure

Although the structural changes of the telecommunications industry in the People's Republic of China ("PRC") has gradually settled and we have witnessed a steady pickup of business activities in the upgrade and expansion of public data networks, Year 2003 has, as per our anticipation, remained a challenging year for telecommunications players. During the Three-Month Period, turnover from our core data networking business gradually picked up as compared to turnover for the previous three quarters during Year 2003. During the period in study, among the contracts secured, we have again been awarded a HK\$21.0 million contract from Guangdong China Telecom for the expansion of the integrated data networks in the Guangdong Province. With this contract, we have been continuously supporting Guangdong China Telecom for their provincial public data networks for over 10 years. In addition, we have been awarded a HK\$12.8 million contract from Hebei China Netcom, a HK\$16.0 million contract from Henan China Netcom, a HK\$5.0 million contract from Liaoning China Netcom and a HK\$3.9 million contract from Anhui Educational Bureau.

Our most valuable asset, that is, our premium installed customer base comprising of major and reputable telecommunications service providers in the PRC, continued to allow us to leverage our business growth. Capitalising on our strong relationship with our carrier customers, we have been cross selling and promoting our Operation Support System ("OSS") researched and developed by our subsidiary in Shanghai, TideStone, to our installed customer base. Subsequent to securing a contract from Guangdong China Telecom, we have been actively promoting OSS to our existing customers, including Chongqing China Telecom and Hainan China Telecom, and new telecommunications service providers including Fujian China Telecom and Yunnan China Telecom. To strengthen our competitiveness, we have been enhancing and upgrading our OSS to expand the list of equipment from international vendors that can be managed so as to allow telecommunications service providers to efficiently and effectively manage their data networks connected by equipment from multi-vendors by deploying a single OSS. We are currently enhancing our OSS to manage data networks built from equipment of six international equipment vendors, including networking equipments from Alcatel, Nortel, Lucent, Juniper, Cisco and Riverstone.

Value-Added Services — Technical Support Services

The investment made into our technical support team began to reap us rewards. In addition to delivering quality front-line services support to our existing installed customer base in 20 provinces, municipalities and autonomous regions in the PRC, another major objective of investing and building a strong technical support team with solid knowledge on product, technology and network maintenance and creating nationwide presence is to well position Vodatel to be a leading provider of technical support services for local and foreign telecommunications service providers and equipment vendors. During the Three-Month Period, we have successfully secured an aggregate of HK\$2.8 million service contracts from customers including local telecommunications service providers and international equipment vendors.

Spin-Off Entity — MegalInfo

MegalInfo, the enterprise arm of the Group, has successfully been listed on GEM on 19th January 2004. This spun-off entity, which focuses principally on the provision of enterprise solutions with an initial focus on the digital imaging management solutions, VodamImage and VodaMax, successfully raised net proceeds of approximately HK\$23 million (net of listing expenses). These net proceeds will be used for (i) expansion of the research and development team of MegalInfo for product development and enhancement; (ii) business development and expansion of marketing team and geographical coverage; (iii) development of collaboration arrangement with universities and software companies; and (iv) acquisition of a software company to complement the future growth of the MegalInfo Group. The separate listing of MegalInfo is expected to enhance availability of resources and allow a separate and independent management team to principally focus on the future development and businesses expansion of the business of MegalInfo.

Internal reorganisation to realign the business activities of the Group

During the current fiscal year, we have commenced an internal reorganisation to realign Vodeltel under the following business activities, namely:

Data networks infrastructure construction — Our core business, with business expansion through enhancement of product offerings, broadening of our customer base, and extension of geographical coverage in the PRC and the Asia Pacific Region; and

Provision of enterprise solutions — Conducted through MegalInfo, an entity which we span off and listed on GEM in the current financial year, which will focus on offering a spectrum of enterprise solutions to customers in selected vertical markets under the series of branded applications of MegalInfo; and

Provision of value-added services in the voice domain — To diversify into the provision of value-added services business in the voice domain, for example, interactive voice response system via mobile or fixed-line and short message services, allowing Vodatel to expand into the voice domain of the telecommunications industry while strengthening the revenue base through the creation of a stable and recurring monthly stream of revenue.

REVIEW OF OPERATING RESULTS

Turnover and Profitability

As anticipated, Year 2003 has continued to be a challenging year. Although under the adverse effect from the restructuring of the telecommunications industry and focus of capital expenditures of our major customers, China Telecom and China Netcom, outside the domain of the Group, turnover of the Group for the Three-Month Period has gradually recovered. Turnover for the Three-Month Period, amounted to HK\$101.4 million, although representing a decrease of 48.6% over the same preceding period (three months ended 31st December 2002), turnover generated for the Six-Month Period experienced an encouraging increase of 76.6% over the turnover generated from the six months from 1st January to 30th June 2003. In addition to experiencing steady recovery to our core business activities, we have also witnessed pressure on net margins to stabilise with gross profit margin from our core business, which involved the design and implementation of data networking systems and the provision of related engineering services, to maintain at 21.4%.

While we experienced a gradual recovery in our core business, we have continued to report an increase in our selling and administrative expenses for the Three-Month Period to HK\$18.6 million, reducing our net profit to HK\$2.6 million for the Three-Month Period. The increase in selling and administrative expenses has been attributable to the following:

- HK\$1.1 million incurred from raising the US\$15 million term loan to accommodate the expansion and acquisition plans of the Group;
- HK\$1.6 million incurred by MegalInfo from additional headcounts to expand and strengthen its marketing and research and development teams;
- HK\$0.5 million incurred by TideStone Software (Shanghai) Corporation Limited (“TideStone”). We are currently in the process of installing and implementing the OSS for Guangdong China Telecom, a contract awarded to us during September 2003, and we expect the revenue in relation to the sale of the software to be recognized during the fourth quarter of our fiscal year ended 30th June 2004; and

- HK\$0.7 million incurred from additional headcounts to our Macau project team to cope with increased business activities from the gaming operators. As at 13th February 2004, orders on hand secured from a gaming operator in Macau amounted to over HK\$30 million.

Capital structure, liquidity and financial resources

The Group continued to maintain a healthy financial and capital structure with minimal bank borrowings. As at 31st December 2003, outstanding debt on our books included US\$1.25 million (HK\$9.7 million) of the 1.90875% convertible bonds issued to Riverstone Networks, Inc., which will mature on 28th February 2004, and RMB6.3 million of short-term loans raised to facilitate the operating activities of our subsidiary in the PRC. The gearing ratio (total borrowings/shareholders' funds) of the Group stood at a comfortable level of 4.4%, with net assets per share maintained at HK\$0.58. Cash on hand amounted to HK\$103.6 million, with HK\$18.1 million of accounts receivables received as at today.

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

At 31st December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company were as follows:

1. Interests in shares, underlying shares and debentures of the Company

	Number of ordinary shares/ underlying shares held		Total	Percentage of shareholding
	Personal interests	Corporate interests		
Mr. José Manuel dos Santos	600,000 (note (a))	293,388,000 (note (e))	293,988,000	47.89%
Mr. Yim Hong	8,257,500 (note (b))	—	8,257,500	1.35%
Mr. Kuan Kin Man	13,162,500 (note (c))	—	13,162,500	2.14%
Ms. Monica Maria Nunes	3,352,500 (note (d))	—	3,352,500	0.55%

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 Lois Resources Limited, a company wholly-owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust.

2. Interests in the shares and underlying shares of the associated corporations of the Company

MegalInfo

	Number of underlying ordinary shares of nominal value HK\$0.01 each in the capital of MegalInfo held			Percentage of shareholding
	Personal interests	Corporate interests	Total	
Mr. José Manuel dos Santos	—	346,385,369	346,385,369	2,664.50%
Mr. Yim Hong	160,318 (note (f))	—	160,318	1.23%
Mr. Kuan Kin Man	267,197 (note (f))	—	267,197	2.06%
Ms. Monica Maria Nunes	53,428 (note (f))	—	53,428	0.41%

- (f) On 19th December 2003, the Board conditionally approved the payment of a special interim dividend as part of the proposal for the spin-off of MegalInfo by way of a distribution in specie in respect of an aggregate of 13,375,000 MegalInfo Shares to the registered holders of the ordinary shares of the Company whose names appeared in the register of members of the Company on 31st December 2003 pro rata to their proportionate shareholdings on that date.

All other associated corporations

Since Mr. José Manuel dos Santos is beneficially interested in more than one-third of the issued share capital of the Company, he is deemed to be interested in the issued shares of all the other associated corporations of the Company.

3. Short positions in the underlying shares of the Company

Options were granted by the Company under a share option scheme over an aggregate of 17,138,000 underlying shares in the Company, the details of which are stated in the section headed “Share Options”. In February 2002, the Company issued a total of US\$3,500,000 convertible bonds to a supplier of the Group. The convertible bonds comprised of three tranches. The first two tranches were exercised or redeemed. As at 31st December 2003, the third tranche has remained outstanding. The right of conversion attaching to the third tranche of the convertible bond, if exercised, would entitle its holder to be issued approximately 4,862,500 additional ordinary shares of the Company.

The aggregate of the 22,000,500 underlying shares in respect of the outstanding share options and the convertible bond represented approximately 3.58% of the issued share capital of the Company as at 31st December 2003.

Since Mr. José Manuel dos Santos was interested in more than one-third of the issued share capital of the Company as at 31 December 2003, he was deemed to have a short position in the 22,000,500 underlying shares.

4. Short positions in the underlying shares of the associated corporations of the Company

As mentioned in note (f) above and subject to the satisfaction of the conditions of the placing of the MegalInfo Shares in connection with the listing of MegalInfo Shares on GEM, MegalInfo would issue an aggregate of 13,375,000 MegalInfo Shares to the registered holders of the ordinary shares of the Company. The Company had granted an option to its shareholders, other than Eve Resources Limited which is wholly-owned by Lois Resources Limited, a company wholly-owned by Mr. José Manuel dos Santos as trustee of a disreccionary trust, who on 31st December 2003 had addresses on the register of members of the Company in Hong Kong to sell such entitlements to the MegalInfo Shares under the Placing (as defined in the prospectus of MegalInfo dated 31st December 2003). Mr. José Manuel dos Santos was deemed to have a short position in the 6,982,131 underlying MegalInfo Shares to be subject to the put option granted by the Company, which represented 53.71% of the issued share capital of MegalInfo.

Save as disclosed above, no directors had any interest or short position in the shares, underlying shares and debentures 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 31st December 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the issued share capital of the Company and/or short position:

Name of shareholder	Long position/Short position	Number of ordinary shares	No. of underlying shares	Percentage of shareholding
Eve Resources Limited	Long position	293,388,000	—	47.80%
	Short position	—	22,000,500	3.58%
Lois Resources Limited	Long position	293,388,000	—	47.80%
	Short position	—	22,000,500	3.58%
Lei Hon Kin	Long position	293,988,000	—	47.89%
	Short position	—	22,000,500	3.58%

The entire issued share capital in Eve Resources Limited is in turn held by Lois Resources Limited, a company wholly-owned by Mr. José Manuel dos Santos, whose interests in the shares of the company are disclosed in the section headed "Directors' interests and short positions in shares and underlying shares of the Company or any associated corporations".

Save as disclosed above, at 31st December 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 issued share capital of the Company, other than those of the directors as disclosed in the section headed "Directors' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations".

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

On 26th September 2003, Vodatel Holdings Limited ("VHL"), a wholly owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability, entered into a loan facility agreement ("Agreement") with Banco Comercial de Macau S.A., CITIC Ka Wah Bank Limited, HSH Nordbank AG, Hong Kong Branch, Industrial and Commercial Bank of China (Asia) Limited (collectively known as the "Lenders") and Standard Chartered Bank ("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 ("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 47.80% of the issued share capital of the Company ("Santos' Family Trust") (being the controlling shareholder (as defined in the GEM Listing Rules) of the Company) shall at all times have as its trust assets, directly or indirectly, not less than 35% of each class of the issued voting share capital in the Company and that the service agreement between Mr. José Manuel dos Santos and the Company dated 12th August 2002 (then renewed on 10th February 2004) is not amended or terminated without the prior written consent of the Agent; and
- (ii) the Santos' Family Trust shall not (whether by a single transaction or a number of related or unrelated transactions and whether at the same time or over a period of time) voluntarily dispose of more than 5% of its shareholdings in the Company without the prior written consent of the Lenders, the aggregate of whose participants exceeds $66\frac{2}{3}\%$ of the loan or if no advances have been made or are outstanding the aggregate of whose commitment exceed $66\frac{2}{3}\%$ of the undrawn balance of the commitment (such consent not to be unreasonably withheld or delayed).

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

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

SHARE OPTIONS

The Company adopted a new share option scheme ("Scheme") at a Special General Meeting held on 5th November 2002.

On 30th June 2003, under the Scheme, 3,300,000 share options were granted to the directors of the Company and 13,838,000 share options were granted to the employees of the Group. The exercise price is HK\$0.42. Details of number of share options granted to each director are stated in the section headed "Directors' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations". None of the share options granted had been exercised as at 31st December 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.

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 GEM Listing Rules since listed on GEM of the 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, 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 and the Six-Month Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

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

Hong Kong, 13th February 2004

Vodatel Networks Holdings Limited
愛達利網絡控股有限公司

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

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

Vodatel Holdings Limited
愛達利控股有限公司

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

No.74 da Rua da Felicidade
Edf. Vodatel
Taipa, Macau
澳門氹仔永福街74號
愛達利大廈

Tel : (853) 721182, 718033
Fax: (853) 717800

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