



VODATEL



Opening PRC to
the World



Breaking
New Grounds



Providing an
Integrated Solution



Riding on the Wave
of New Technology

2001 Annual Report

Networking the World
Networking the People

GEM Disclaimer

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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 Stock 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 Stock 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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Corporate Information

Directors

Executive Directors

José Manuel dos Santos
Yim Hong
Ho Kwok Hung
Kuan Kin Man
Monica Maria Nunes

Independent Non-executive Directors

Chui Sai Cheong
Lo King Chiu, Charles

Authorized Representatives

Yim Hong
Monica Maria Nunes

Company Secretary

Cheung Yiu Leung, CPA, ACCA, AHKSA

Qualified Accountant

Cheung Yiu Leung, CPA, ACCA, AHKSA

Compliance Officer

Monica Maria Nunes

Audit Committee

José Manuel dos Santos
Chui Sai Cheong
Lo King Chiu, Charles

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office & Principal

Place of Business

Estrada D. Maria II
Ed. Industrial Cheong Long
4th Floor "B&C"
Macau
Tel: (853) 721182
Fax: (853) 717800

Place of Business in Hong Kong

Room 1401, 14th Floor
China Merchants Tower, Shun Tak Centre
168-200 Connaught Road, Central
Hong Kong
Tel: (852) 2587 8868
Fax: (852) 2587 8033

E-Mail Address

<http://www.vodatelsys.com>

Bankers

Banco Comercial de Macau (Asia) SARL
Crédit Agricole Indosuez
Dao Heng Bank/Overseas Trust Bank
Industrial and Commercial Bank of China (Asia)
Standard Chartered Bank

Share Registrars

Abacus Share Registrars Limited
5th Floor, Wing On Centre,
111 Connaught Road Central,
Hong Kong

About Us

A collage of blue-toned images. In the center, a network cable with a clear RJ45 connector is shown. To the left, a server rack is visible. To the right, a hand is shown holding a power button, with the word 'POWER' printed on it. The background features a grid pattern and various geometric shapes.

Company Profile

Vodatel Networks is one of the leading network solutions providers in the PRC, specializing in DDN, Frame Relay, ATM and IP technologies. The Company provides fully integrated services ranging from network planning, design, installation to implementation, as well as maintenance and after-sales technical support to public telecommunications service

providers and enterprise customers. Since its establishment, the Company has built up its long-term relationships with its premium customers, including China Telecom, administered by the Ministry of Information Industry of the PRC, as well as enterprises in the PRC and Macau markets.



José Manuel dos Santos
Chairman

The Board of Directors proposed a final dividend of 2.0 HK cents per share for fiscal year ended 30th June, 2001.

RECORD RESULTS FOR OUR SHAREHOLDERS

Our energy, commitment and focus in China allow us to accelerate our growth strategy. With six consecutive years of solid and unbroken profit-making record, we are pleased to announce that for fiscal year ended 30th June, 2001, our turnover climbed 13.4% from HK\$482.3 million to HK\$546.9 million with net profit reaching HK\$80.8 million. We delivered an earnings per share of 13.2 HK cents, and a return on equity of 28.8%.

Demand for public data infrastructure in China remains strong. Orders on hand as at 20th September, 2001 amounted to HK\$186.4 million.

MAJOR ACHIEVEMENTS

Despite turbulent economic times in the global market, China remains in the spotlight. We are proud that the combination of our technical know-how, market knowledge

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

and geographic presence has continued to make Vodatel a recognized market leader. During the year, we extended our customer installation base to 16 provinces, municipalities and autonomous regions in China, covering the more fertile coastal areas as Shanghai and Guangdong, to inland regions, such as Guizhou, Ningxia and Tibet. We have also successfully expanded our clientele base, with Vodatel now serving carrier customers including China Telecom, China Unicom, China Mobile and cable TV operators as well as other enterprise customers. Leveraging on our long established relationships with our carrier customers, we have also entered into the broadband IP Metropolitan network market.

DESTINATION OF CHOICE

To date, we have marked our footprints in 16 provinces, municipalities and autonomous regions, making Vodatel a leading non-domestic player in China. We have come this far by practising what we believe in how we should serve our customers. First, providing our customers with the best technology and equipment. We offer products that are the best-of-breed, comprising of carrier-class equipment from world-class technology front-runner network equipment vendors. Second, putting the human touch behind our services. We have continued to enhance the efficiency and productivity of our technical support team and increase our technical support centers, which now span in 13 provinces, to strengthen our network of relationships and to better serve our customers. Going forward, we will continue to work towards our goal - to become the network solutions provider of choice for telecommunications service providers and a trusted technical partner for both local and international equipment vendors and service providers in China.

FUTURE PROSPECTS

Our commitment to increase our bottom line remains our highest priority. We will use our greatest strengths - our

market knowledge, established presence and strong customer relationships - to increase shareholders' value and to consistently achieve solid results year after year. We will continue to tightly manage our business to deliver growth, strive ways to improve our profit margin by introducing innovative value-added services and keeping close watch on our overhead costs.

China's entry into WTO and Beijing to host the Olympic Games for Year 2008 will inspire the opening up of this huge potential market. With deep roots in China, we believe that our on-the-ground presence, in-depth understanding of local conditions and proven ability to deliver on-the-ground solutions will well position Vodatel as the preferred partner for both local and foreign telecommunications service providers to further expand their reach in China.

China is our primary market, as it always has been over the last 10 years. As we continue to build our successful story in China, we will use our experience in network infrastructure construction to explore new business opportunities and to expand our coverage in the Asia Pacific Region.

A FINAL WORD OF THANKS

Finally, I would like to thank our valued customers and reputable suppliers for their support towards Vodatel during all these years. I would also like to extend my appreciation to our devoted employees, who are more interested in teamwork than politics, for their professionalism and dedication. All your continued support is, and will always remain, the key ingredient for our growth and profitability.

José Manuel dos Santos

Chairman

Hong Kong, 20th September, 2001



Mr. KUAN Kin Man
Mr. José Manuel dos SANTOS
Ms. Monica Maria NUNES
Mr. YIM Hong
(from left to right)

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. José Manuel dos SANTOS, aged 53, is the founder of the Group and the Chairman of the Company. He has over 30 years' experience in the telecommunications industry in the Asia Pacific region. He served in a senior position at Direcção dos Serviços de Correios e Telecomunicações, the telecommunications authority of Macau, prior to the founding of Zetronic and subsequently the Group.

Mr. YIM Hong, aged 43, is the Managing Director of the Group in charge of overall operations. He graduated from the University of London, the United Kingdom with a Bachelor of Science degree. With more than 20 years' experience in the IT industry, he joined the Group in 1998. Prior to joining the Group, Mr. Yim was the Area Business Director at Newbridge and the Country Manager at 3Com Corporation.

Mr. KUAN Kin Man, aged 36, is a Director and the General Manager of the Group in charge of sales and marketing. In 1985, he joined Zetronic as an engineer and was transferred into marketing later. With the establishment of the Group in 1992, Mr. Kuan joined the Group in the same year to assume the role of sales manager and was promoted to general manager in 1994.

Ms. Monica Maria NUNES, aged 32, is a Director and the Financial Controller of the Group. She joined the Group in 1999 and has over 10 years of accounting and banking experience. She is a Certified Accountant in Macau and holds a Certified Management Accountant Designation from the Society of Management Accountants of Alberta, Canada.

Biographical Details of Directors and Senior Management

Mr. HO Kwok Hung, aged 52, is a Director responsible for wireless products and business development of the Group. He has 12 years of long association with world leading telecommunication equipment manufacturers and cellular operators. Prior to joining Vodatel, he was the Marketing Director of Hutchison Telecommunications (HK) Ltd. responsible for sales and marketing of both long distance and wireless products and services including cellular, paging and public trunking systems. He also spent 2 years as the Managing Director of Chung Kiu Telecom, a subsidiary company of Hutchison Group with major business focus in telecom projects and two-way radio equipment manufacturing in China.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHUI Sai Cheong, aged 47, was appointed as an independent non-executive Director on 14th December 1999. Mr. Chui is a Certified Public Auditor in Macau and Civil Constructor by profession with a Master degree in Business Administration from Chaminade University of Hawaii, U.S.A. Mr. Chui is a member of several key governmental committees including the National Committee of the Chinese People's Political Consultative Conference, the Legislative Assembly of Macau Special Administrative Region (SAR), the Preparatory Committee of Macau SAR and the Selection Committee for the First Government of the Macau SAR. Mr. Chui holds several prominent positions in professional bodies including the Macau Chamber of Commerce (Vice President of Board of Director), the Macau Management Association (President), and the Association of Economic Sciences of Macau (President).

Mr. LO King Chiu, Charles, aged 57, was appointed as an independent non-executive Director on 14th December, 1999, Mr. Lo, holds a Bachelor's degree of Arts and major in Economics from Lake Forest University, U.S.A. in 1967. Mr. Lo is the Special Advisor to President (Asia) of the University of Victoria in Canada and is a consultant on Public Relations for British American Tobacco Plc in Macau. Mr. Lo is also the founder of the Macau Junior Chamber of Commerce and Past President of the Rotary Club in Macau.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. WONG Wai Kan, aged 37, is the Senior Regional Business Director of the Group. He graduated from the Guangzhou Jinan University with a Bachelor of Science degree. He has been with the Group since 1993. Mr. Wong worked in the fields of purchasing and banking before joining the Group.

Mr. KUOK Cheong Weng, aged 53, is the Regional Business Director of the Group. He graduated from the Chinese University of Hong Kong with a Bachelor of Science degree. Prior to joining the Group, Mr. Kuok was Managing Director of Master Mind Zhu Hai Ltd. and Heng Va Company which are companies engaged in consultancy business. He joined the Group in 1998.

Mr. HO Wai Sam, Paul, aged 39, is the Director of Technical Services of the Group. He graduated from Asia International Open University (Macau) with an MBA degree. Mr. Ho had worked in Macau CTM for 18 years and was Head of Transport Network covering the international and national engineering such as optical fibre, SDH and PDH transmission, submarine cable, microwave and satellite earth station. He joined the Group in 2000.

Mr. CHAN Chi Pio, aged 32, is the Technical Support Manager of the Group. He joined the Group in 1992 after having graduated from Fujian Hua Qiao University with a Bachelor of Science degree in the same year.

Mr. NG Ka Leung, aged 32, is the Technical Support Manager of the Group. He graduated from the University of Macau with a Bachelor of Science degree in 1994. Mr. Ng has been with the Group since 1995.

Mr. RAO Hui, aged 30, is the Regional Business Director of the Group. Mr. Rao graduated from Nanjing University of Posts and Telecommunications with a Bachelor of Science degree in 1992. He joined the Group in 1993. Mr. Rao was a university lecturer before joining the Group.

Mr. YUN Jun, aged 31, is the Regional Business Director of the Group. He graduated from Nanjing University of Posts and Telecommunications with a Bachelor of Science degree in 1992. He joined the Group in 1994. Mr. Yun worked for China Telecom with the capacity as section chief before joining the Group.

Biographical Details of Directors and Senior Management

Mr. ZENG Qing Shi, aged 31, is the Regional Business Manager of the Group. He graduated from Nanjing University of Posts and Telecommunications with a Bachelor of Science degree. He joined the Group in 1994. Mr. Zeng was an engineer at a factory under the Ministry of Aerospace before joining the Group.

Mr. WANG Qing, aged 31, is the Regional Business Manager of the Group. He graduated from Nanjing University of Posts and Telecommunications with a Bachelor of Science degree in 1992. He joined the Group in 1994. Mr. Wang was an engineer at a telecommunications equipment firm before joining the Group.

Mr. WANG Hai Tao, aged 30, is the Regional Business Manager of the Group. He graduated from Nanjing University of Posts and Telecommunications with a Bachelor of Science degree in 1992. He joined the Group in 1994. Mr. Wang was an engineer at China Telecom before joining the Group.

Mr. PONG Chi Wai, aged 37, is the Regional Business Director of the Group. He graduated from University of Macau with a Bachelor of Science degree. He joined the Group in 1994. Mr. Pong was a sales executive at a business systems firm before joining the Group.

Mr. SI I Hong, aged 33, is the Senior Regional Business Director of the Group. He graduated from University of Macau with a Bachelor of Science degree. He joined the Group in 1994. Mr. Si had working experience in banking and hotel industries before joining the Group.

Mr. ZHONG Min, aged 39, is the Regional Business Manager for the Group. He obtained his Bachelor of Science degree, Master of Science degree and Ph.D. degree from South Metallurgy College, Jiangxi, Chongqing University and Tsinghua University respectively. He joined the group in 1998. Mr. Zhong was a university lecturer and worked in Macau as the general manager for an organisation headquartered in Beijing.

Mr. MOK Chi Va, Andy, aged 36, is the Business Development Manager of the Group. He is the holder of the Diploma of Business Administration from the Macau Management Association. Mr. Mok had worked for Charter Kingdom Ltd. as the operation manager for one year and Tung Tat E&M Engineering Co. Ltd. as the project manager for 4 years. He joined the Group in 2000.



Review of Business Operations

Review of Business Operations

DATA NETWORKS INFRASTRUCTURE

Construction of public data infrastructure for telecommunications service providers in China remains the core business of Vodatel. Despite an uneven year for the global economy, China's telecommunications sector maintains its momentum as the market is aggravated with the emergence of new market forces, such as China Mobile, China Unicom, Netcom, Jitong, China Railcom and cable TV operators ("CATV").

Our continuous effort in the promotion of the integrated network concept, i.e. integrating DDN and broadband networks (Frame Relay and ATM) to form a unified platform, reaps us rewards. During the year, we received strong orders from China Telecom to expand and integrate their networks. Major projects awarded to us included the HK\$11.0 million contract from Qingdao China Telecom and an aggregate of HK\$32.6 million contracts from Shanghai China Telecom. We are particularly proud to be awarded the HK\$138.6 million contract from Guangdong China Telecom to expand and upgrade their existing networks and to integrate their DDN and broadband network -- a project that demonstrated Vodatel's in-depth experience and technical capability are recognized in the market.

To reinforce our growth momentum and to further build our recurring earnings, we have used our strengths in market knowledge and technical capability to capture more customers, not to mention capitalizing on the mandate of the Chinese Government to "Go West". During the year, we successfully expanded into 3 new territories, namely Tianjin, Shanxi and Tibet and further penetrated into alternate carriers, including China Unicom in the provinces of Jiangsu and Shaanxi, Shanghai East China Broadcasting Net, Hunan China Mobile and CATV in Suzhou and Zibo. Today, Vodatel marks its footprints in 16 provinces, municipalities and autonomous regions in China, working in collaboration with the local telecommunications service providers to support their public data networks.

Review of Business Operations

With the generalization of broadband networks to become accessible for the general public, IP Metropolitan network has become one of the focuses of broadband network construction. To enter into this arena, we have taken up the distributorships of Juniper for its new generation core routers and Extreme for its core switches. Combining world-class products and our established relationships with our carrier customers, we successfully broke into the broadband IP Metropolitan market and secured two landmark projects -- on a city level, the HK\$32.7 million contract awarded by Jiaying China Telecom; and on a provincial level, the HK\$35.8 million contract awarded by Jilin China Telecom.

To become the destination of choice for telecommunications service providers for network solutions, it is necessary to broaden our array of carrier-class products. Therefore, in addition to representing Alcatel, Juniper and Extreme, we have also taken up the distributorships of Cosine for its VPN and Alidian for its Metro DWDM equipment. To bolster the margin of the IP projects, we have joint forces with Vodatel Crossland to develop a network management system, named VCMS, to manage and support traffic from different vendors running over the broadband IP networks. VCMS has been built to equip with management redundancy, on-line documentation functions, data collection, network trending and analysis functionality features. Development of the first phase of VCMS has been completed in June 2001 and field trial run at our customer site is in progress.

Review of Business Operations



TECHNICAL SERVICES

With the vision to become the trusted technical partner for both local and international equipment vendors and service providers, we have continued to upgrade our technical support team into a carrier-class nationwide support center. To strengthen our technology know-how and technical expertise, we have recruited experienced engineers with diversified networking background and provided training to excel their domain knowledge.

We have set up more new representative offices to expand our geographical reach in China and to establish a solid network of relationships with the local telecommunications service providers in each province. Today, Vodatel operates representative offices in 13 provinces, all backed by a team of local network engineers. We also run a 24-hour hotline center in Zhuhai and a service hub in Guangzhou to provide nationwide backup support.

Review of Business Operations

WIRELESS COMMUNICATIONS

During the year, LG TOPS, our CDMA WLL joint venture with Korean-based LG, in which Vodatel has 9.8% equity interest, successfully penetrated into the wireless communications market, winning contract from Guangzhou China Telecom to supply CDMA WLL systems and various contracts from China Unicom in the city of Chengdu, Sichuan Province to provide CDMA cellular systems and terminals. In addition, as the production subsidiary for ADSL business of LG in China, LG TOPS successfully signed an equipment agreement with Xinjiang China Telecom to supply ADSL equipment, which is developed from LG's own technology.

E-COMMERCE

Our e-commerce business has been adversely affected by the global agitation in e-commerce. Nevertheless, the vcBook, an access device with smart card developed by Vodatel Crossland, has been successfully installed at selected branches of Bank of America (Asia) Ltd. in Hong Kong for self-directed retail investors to trade stocks. In addition, the New Economy Trading Platform ("NETP") has also been successfully employed by the Government of Macau, with a contract awarded by a department under the Government of Macau to develop applicable e-solutions deployed from NETP.

SELF-DEVELOPED PRODUCTS

Encouraged by the success from the development of Vodalmage, which has been sold and installed at various mobile bureaus in the Guangdong Province, including Zhongshan, Zhuhai, Shantou and Shenzhen, we have commenced the research and development of a surveillance system. This surveillance system will ride on TCP/IP protocols, hence allowing easy transmission of video, image and voice signals over LAN, WAN or Internet.

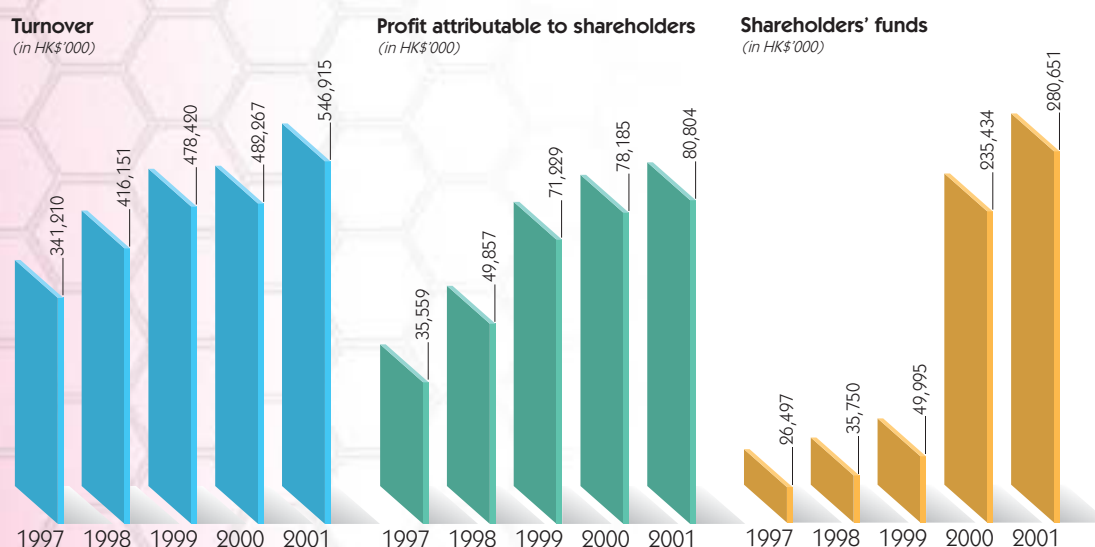
Management Discussion and Analysis

Construction of public network infrastructure remains the main profit contributor of the Group. With the successful penetration into the broadband IP Metropolitan network ("IP MAN") market and steady revenue from the construction of DDN, Frame Relay and ATM public data networks, turnover for the year grew by 13.4% from HK\$482.3 million to HK\$546.9 million. However, given the nature of IP MAN, which carried lower margins as compared to the margins derived from the construction of DDN, Frame Relay and ATM networks, gross profit margin declined slightly from 29.3% to 27.2%. Nevertheless, in view of the fast growing pace of the IP MAN market, lower margin will be compensated by larger volume of IP MAN projects. In addition, the promotion of value-added services, such as the network management system developed by Vodatel Crossland, will help to improve the margin of IP MAN projects.

Selling and administrative expenses increased by HK\$4.6 million over last fiscal year attributable to the setting up of three new representative offices and the expansion of our technical service team in China. Share of losses of associated companies pertained primarily to Vodatel Crossland, whose promotion of e-commerce solutions has been adversely affected by the slowdown in the development of e-business. As a result, net profit for the year grew 3.3% from HK\$78.2 million to HK\$80.8 million, with return on equity hitting 28.8%.

We continued to maintain a debt-free capital structure and strong liquidity position. Cash inflow from operating activities amounted to HK\$52.8 million with net cash reaching HK\$225.4 million.

Worth noting was that level of inventories more than doubled. Higher level of network equipment was to support our business growth and to accommodate contracts calling for delivery during July and August. Of the HK\$86.1 million of stocks as at 30th June 2001, HK\$36.5 million has been reserved and earmarked against confirmed orders.



Comparison of Business Objectives as set out in the Prospectus dated 16th February, 2000 with Actual Business Progress in respect of the Six-Month Period to 30th June, 2001

BUSINESS OBJECTIVES

Revenue and business development

- Continue the business development activities from the last period

ACTUAL BUSINESS PROGRESS

- Strong orders received from China Telecom at both the provincial and municipal levels to upgrade and expand their DDN and Frame Relay/ATM data networks. In addition, we made a breakthrough into the broadband IP Metropolitan market with contracts awarded from Jiaxing China Telecom and Jilin China Telecom and successfully penetrated further into alternate carriers, including China Unicom in the provinces of Jiangsu and Shaanxi, Shanghai East China Broadcasting Net, Hunan China Mobile and CATV in Suzhou and Zibo. During the period, our array of networking products has been expanded through the taking up of the distributorships of Extreme for its core switches, Cosine for its VPN and Alidian for its Metro DWDM equipment

BUSINESS OBJECTIVES

Revenue and business development (Continued)

- Expand sales from integrated data networks, comprising DDN and Frame Relay/ATM and Internet access equipment to existing clients in major and other provinces/cities in the PRC
- Explore business opportunities in other Asia Pacific region
- Generate sales from mobile networking solutions for operators in major provinces/cities and promote the solutions to other provinces/cities in the PRC
- Promote broadband mobile data solutions to clients in major provinces/cities in the PRC

Technical and engineering support

- Explore business opportunities in areas in facility management and network outsourcing in the PRC

ACTUAL BUSINESS PROGRESS

- Result from the promotion of such concept has been encouraging. Among the projects awarded included the HK\$138.6 million contract from Guangdong China Telecom to expand its existing DDN and broadband networks and to integrate the two networks together to form an integrated network. Other contracts secured from Qingdao China Telecom, Shanghai China Telecom and Jiangxi China Telecom
- Conducted field visits to selected countries in the Asia Pacific region
- Carried out through LG TOPS, with contracts being awarded by Guangzhou China Telecom and Chengdu Unicom in the Sichuan Province
- Due to uncertain market conditions, promotion has been delayed
- Promotion and sale of networking equipment and related services to Internet Data Centre in China to support its facility management services

BUSINESS OBJECTIVES

R & D

- Develop electronic payment system
- Enhance broadband data networks applications
- Continue to research wide-band CDMA applications
- Enhance e-commerce applications

ACTUAL BUSINESS PROGRESS

- Undertook by Vodatel Crossland, with the development of the electronic payment system completed and currently in the process of interfacing it with the payment gateway of the New Economy Trading Platform
- Commenced in-house research and development of a surveillance system riding over broadband network

Development of the first phase of the network management system by Vodatel Crossland to manage IP traffic has been completed and field trial run at our customer site in progress

- On hold with close monitoring of the market development of CDMA
- Conducted by Vodatel Crossland, we are in process of incorporating security features into vcShare, the self-developed stock-trading platform connected to the Third Generation Automatic Matching System of the Stock Exchange of Hong Kong, to strengthen the functionality of the platform

BUSINESS OBJECTIVES

R & D (Continued)

- Enhance Internet access solutions

Acquisitions, joint ventures and collaborations

- Continue to explore collaboration opportunities in the areas of ISP/ICP and other Internet-related applications in the PRC and the Asia Pacific region

Subsidiaries, representative offices and branches

- Evaluate need to establish new offices to cope with business expansion

ACTUAL BUSINESS PROGRESS

- Developed by Vodatel Crossland, enhancement of the set-top box with broadband connection capability underway
- Took up 28% equity interests in Guangzhou Information Communication Co., Ltd., which is engaged in the provision of internet related data services in Guangzhou
- Three new representative offices in China, namely in the cities of Changchun, Tianjin and Xian, have been established

The background features a complex, abstract design. It includes several overlapping, semi-transparent geometric shapes in shades of purple and teal. A prominent feature is a large, light-colored, textured shape that resembles a stylized letter 'V' or a similar geometric form. The overall aesthetic is modern and corporate, with a focus on clean lines and vibrant colors.

Financial Information

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 30th June 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the company is investment holding. The activities of the subsidiaries are set out in note 11 to the accounts.

An analysis of the group's turnover and contribution to operating profit for the year by principal activities and markets is as follows:

	Turnover HK\$'000	Operating profit HK\$'000
Design and implementation of data networking systems and provision of related engineering services	471,885	85,496
Sale of goods	75,030	11,892
	<u>546,915</u>	<u>97,388</u>

More than 90% of the group's turnover and operating profit was derived from the market in the People's Republic of China.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 34.

The details of dividends paid and declared during the year are set out in note 6 to the accounts.

RESERVES

Movements in the reserves of the group and the company during the year are set out in note 17 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the group are set out in note 10 to the accounts.

SHARE CAPITAL AND SHARE OPTION

Details of the movements in share capital and share option of the company are set out in note 16 to the accounts.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

Distributable reserves of the company at 30th June 2001, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$76,853,000 (2000: HK\$76,793,000).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 67.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 7,016,000 ordinary shares of HK\$0.10 each of the company were repurchased by the company at prices ranging from HK\$0.81 to HK\$0.99 per share through the Growth Enterprise Market ("GEM") of the Hong Kong Stock Exchange. Details of the share repurchase are set out in note 16 to the accounts. The directors consider the share repurchase will lead to an enhancement of the net assets and earnings per share of the group.

Apart from the above, neither the company nor any of its subsidiaries has repurchased, sold or redeemed any of the company's listed securities during the year.

DIRECTORS

The directors during the year were:

- Mr. José Manuel dos Santos
- Mr. Yim Hong
- Mr. Kuan Kin Man
- Ms. Monica Maria Nunes
- Mr. Ho Kwok Hung
- * Mr. Chui Sai Cheong
- * Mr. Lo King Chiu, Charles

* Independent non-executive directors

In accordance with Article 87 of the company's bye-laws, Mr. Kuan Kin Man and Ms. Monica Maria Nunes retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

Mr. Chui Sai Cheong and Mr. Lo King Chiu, Charles, are independent non-executive directors and were appointed for a two and a half-year term expiring on 14th May 2002.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for Mr. Ho Kwok Hung, has entered into a service agreement with the company for a term of two and a half years commencing from 12th February 2000. The service agreement with Mr. Ho Kwok Hung has been entered for a term of two and a half years commencing 19th April 2000. The service agreements shall continue thereafter until terminated by either party giving to the other at least six months' notice in writing expiring not earlier than the date of expiry of the said initial fixed term unless otherwise agreed by the executive directors and the company to determine the same.

The annual salary of each executive director is subject to periodic review. Each executive director shall abstain from voting and not be counted in the quorum in respect of any resolution regarding the amount payable to such director in respect of his/her appointment as a director.

Each of the executive directors is entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the group after taxation and minority interest but before extraordinary items of the group and before such bonuses, which percentage shall be determined by the board of directors of the company, but in any event, the aggregate amount payable each financial year to all executive directors shall not exceed 10% of such profit.

Save as disclosed herein, there are no existing or proposed service contracts (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)) between any member of the group and any of the directors.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 8 to 12.

DIRECTORS' INTEREST IN CONTRACTS

The details of the directors' interest in contracts are set out as follows:

- (a) During the year, Mr. José Manuel dos Santos and a subsidiary of the company had 76% and 24% interests in Guangzhou Vodatel Development Limited ("GVDL") respectively. On 15th June 2001, both Mr. José Manuel dos Santos and the subsidiary of the company injected additional capital into GVDL. After the capital injection, Mr. José Manuel dos Santos and the subsidiary company had 46% and 54% in GVDL respectively, and GVDL became an indirectly-held subsidiary of the company. GVDL and Vodatel Networks Limited ("VNL"), a subsidiary of the company entered into a business development contract on 10th February 2000 pursuant to which VNL agreed to appoint GVDL as agent for developing its business in mainland China and GVDL agreed to introduce third-party purchasers in mainland China to VNL for a term of three years commencing from the date of execution of such contract. Pursuant to the contract, VNL shall pay GVDL a business development fee which is equivalent to the sum of the expenses incurred by GVDL for performing the contract and 2% of such expenses. Further, under the same contract, VNL will enter into sale and purchase agreements with third-party purchasers directly and GVDL will assist VNL to collect the sale proceeds (if requested) from those third-party purchasers and will also provide after-sales services to such third-party purchasers on behalf of VNL.
- (b) There are sales transactions conducted between a subsidiary of the company and Zetronic Comunicações Lda, the interest of which is held as to 99% by Mr. José Manuel dos Santos and 1% by the spouse of Mr. José Manuel dos Santos, which are in the opinion of the directors carried out in the ordinary course of business and on normal commercial terms.
- (c) The Macau office of the company is owned by Mr. José Manuel dos Santos and is leased to Vodatel Holdings Limited ("VHL"), a subsidiary of the company, for a monthly rental of HK\$5,000.

The directors are of the opinion that the terms and conditions as disclosed in the business development contract dated 10th February 2000, as described in (a) above, have been entered into and carried out in the ordinary and usual course of business of the group on an arm's length basis, on normal commercial terms, are fair and reasonable and in the interests of the shareholders of the company as a whole.

Save as disclosed herein, no contracts of significance in relation to the group's business to which the company and its subsidiaries was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

Save as disclosed in the section headed "Directors' interests in contracts", the details of other connected transactions are set out as follows:

- (a) Seven representative offices were registered with mainland China authorities under the ownership of Vodatel Systems, which is a sole proprietorship registered in Macau and owned by Mr. José Manuel dos Santos. By an asset transfer deed dated 23rd July 1999, all liabilities and assets in the sole proprietorship of Mr. José Manuel dos Santos were transferred to VHL in consideration of 10,000 shares in VHL which were valued at approximately HK\$77,600, taking retrospective effect from 1st July 1998.

To ensure that the group will continue to have the benefits of these seven representative offices which were registered under the name of Vodatel Systems and any other offices which may be established, the group is in the process of applying for the re-registration of these seven representative offices and registration of the new offices under the name of the group. Pursuant to a deed of undertaking dated 10th February 2000, Mr. José Manuel dos Santos, Mr. Yim Hong, Mr. Kuan Kin Man and Ms. Monica Maria Nunes, (collectively known as "Undertakers"), all being the executive directors, jointly and severally undertake to submit application to the relevant mainland China authorities to effect such re-registration. The Undertakers further undertake to arrange for the premises currently occupied by these representative offices to be leased by the group and the transfer of the employees currently employed for these representative offices to the group, subject to agreement by those employees.

Pending the re-registration approval, the arrangement is that the seven representative offices will remain under the control of the group and all expenses incurred will be to the account of the group. Pursuant to a written confirmation by Mr. José Manuel dos Santos dated 15th February 2000, such arrangement will continue until completion of the re-registration of the seven representative offices, but in any case, will not be longer than three years from the date of commencement of that arrangement between the seven representative offices and the group. All representative offices have been re-registered up to the date of this report.

In respect of the premises occupied by each of the seven representative offices, the Undertakers jointly and severally undertake to, inter alia, indemnify the group against any failure to comply with the relevant mainland China legal or administrative requirements regarding the leases of those premises, and in particular, any failure to obtain any leasing permit from the relevant mainland China authorities, under a deed of indemnity dated 10th February 2000 executed by the executive directors in favour of the company.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

(b) A subsidiary of the company has made advances to an associated company, Vodatel Crossland Technology Company Limited ("VCT"), to finance the working capital requirement of the associated company. At 30th June 2001, the amount due from the associated company to the group was approximately HK\$1,710,000. The other shareholder of VCT, a third party, has also advanced to VCT an amount in proportion to its share of equity interest in VCT as at 30th June 2001.

The directors are of the opinion that the arrangements between the seven representative offices and the group, as described in (a) above, have been entered into and carried out on normal commercial terms, are fair and reasonable and in the interest of the shareholders of the company as a whole.

Apart from (a) above, all connected transactions are also regarded as related party transactions and disclosed in note 23 to the accounts.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2001, the interests of the directors in the shares and options of the company and its associated corporations (within the meaning of in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the company under Section 29 of the SDI Ordinance or as notified to the company ordinary shares of HK\$0.10 each in the company were as follows:

Name of director	Number of shares held	Type of interests
Mr. José Manuel dos Santos	293,388,000	Corporate Note (a)
Mr. Yim Hong	7,357,500	Personal
Mr. Kuan Kin Man	12,262,500	Personal
Ms. Monica Maria Nunes	2,452,500	Personal
Mr. Ho Kwok Hung	706,000	Personal

Note (a):

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 in this report, none of the directors has an interest in a business which competes or is likely to compete with the group's business.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

Details of the share options which have been granted to the directors of the company as at 30th June 2001 are as follows:

	Number of share options
Mr. José Manuel dos Santos	290,000
Mr. Yim Hong	290,000
Mr. Kuan Kin Man	290,000
Ms. Monica Maria Nunes	290,000
Mr. Ho Kwok Hung	290,000
	<hr/>
	1,450,000
	<hr/> <hr/>

The exercise price of the above share options is HK\$1.19 and the exercisable period is from 16th August 2000 to 15th August 2003. None of the directors exercised the share options during the year.

Apart from the above, at no time during the year was the company or its subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate.

On 1st August 2001, share options to subscribe for 2,088,000 shares were granted to certain directors of the company. Details of the share options which have been granted to the directors of the company as at 1st August 2001 are as follows:-

	Number of share options
Mr. José Manuel dos Santos	522,000
Mr. Yim Hong	522,000
Mr. Kuan Kin Man	522,000
Ms. Monica Maria Nunes	522,000
	<hr/>
	2,088,000
	<hr/> <hr/>

The exercise price of the above share options is HK\$0.79 and the exercisable period is from 1st February 2002 to 31st July 2004.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

At 30th June 2001, the interests of substantial shareholders being 10% or more of the company's issued share capital, other than directors or chief executives of the company, in the shares of the company as recorded in the register required to be kept under section 16(1) of the SDI Ordinance were as follows:

Name of shareholder	Number of ordinary shares
Eve Resources Limited	293,388,000

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".

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the company were entered into or existed during the year.

INTEREST OF SPONSOR

Core Pacific-Yamaichi Capital Limited has entered into a sponsorship agreement with the company whereby, for a fee, Core-Pacific Yamcichi Capital Limited will act as the company's continuing sponsor for the purpose of chapter 6 of the Rules Governing the Listing of Securities on GEM for the period from 16th February 2000 to 30th June 2002.

Core Pacific-Yamaichi Capital Limited, its directors, employees and associates, at 30th June 2001, did not have any interests in securities of the company or any member of the group or any right to subscribe for or to nominate persons to subscribe for the securities of the company or any member of the group.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the group's major suppliers and customers are as follows :

Purchases	
- the largest supplier	67%
- five largest suppliers combined	97%
Sales	
- the largest customer	25%
- five largest customers combined	50%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the company's share capital) had an interest in the major suppliers or customers noted above.

REPORT OF THE DIRECTORS

BOARD PRACTICES AND PROCEDURES

The company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 to the Rules Governing the Listing of Securities on GEM since listed on the GEM of the Stock Exchange.

AUDIT COMMITTEE

The principal activities of the audit committee include the review and supervision of the group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors, namely Mr. Chui Sai Cheong and Mr. Lo King Chiú, Charles, and an executive director, Mr. José Manuel dos Santos. Two meetings were held during the current financial year.

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 Hong Kong Society of Accountants.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

José Manuel dos Santos

Chairman

Hong Kong, 20th September 2001

AUDITORS' REPORT TO THE SHAREHOLDERS OF VODATEL NETWORKS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 34 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are required to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of the affairs of the company and the group as at 30th June 2001 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20th September 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30th June 2001

	Note	2001 HK\$'000	2000 HK\$'000
Turnover	2	546,915	482,267
Cost of sales		<u>(397,933)</u>	<u>(340,675)</u>
Gross profit		148,982	141,592
Other revenues	2	11,773	10,296
Selling expenses		(5,745)	(10,716)
Administrative expenses		<u>(57,622)</u>	<u>(48,034)</u>
Operating profit	3	97,388	93,138
Share of losses of associated companies		<u>(2,155)</u>	<u>(337)</u>
Profit before taxation		95,233	92,801
Taxation	4	<u>(14,429)</u>	<u>(14,616)</u>
Profit attributable to shareholders	5	80,804	78,185
Dividends	6	<u>(12,160)</u>	<u>(19,577)</u>
Profit for the year retained	17	<u><u>68,644</u></u>	<u><u>58,608</u></u>
Basic earnings per share	7	<u><u>13.2 cents</u></u>	<u><u>14.6 cents</u></u>

CONSOLIDATED BALANCE SHEET

As at 30th June 2001

	Note	2001 HK\$'000	2000 HK\$'000
Fixed assets	10	3,733	3,639
Interests in associated companies	12	6,609	9,048
Investment securities	13	16,540	13,265
Current assets			
Inventories	14	86,130	34,052
Trade and bills receivables		196,805	206,022
Other receivables, deposits and prepayments		10,977	11,027
Pledged time deposits	19	2,137	2,808
Bank balances and cash		225,518	179,838
		<u>521,567</u>	<u>433,747</u>
Current liabilities			
Due to a director	15	—	212
Trade and bills payables	19	158,040	127,503
Other payables and accruals		54,528	59,394
Taxation payable		42,032	27,931
Proposed dividend		12,160	9,225
Bank overdraft		70	—
Bank loan, secured	20	59	—
		<u>266,889</u>	<u>224,265</u>
Net current assets		<u>254,678</u>	<u>209,482</u>
Total assets less current liabilities		<u>281,560</u>	<u>235,434</u>

CONSOLIDATED BALANCE SHEET

As at 30th June 2001

	Note	2001 HK\$'000	2000 HK\$'000
Financed by:			
Share capital	16	60,798	61,500
Reserves	17	<u>219,853</u>	<u>173,934</u>
Shareholders' funds		280,651	235,434
Minority interests		764	—
Bank loan, secured	20	<u>145</u>	<u>—</u>
		<u>281,560</u>	<u>235,434</u>

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

BALANCE SHEET

As at 30th June 2001

	Note	2001 HK\$'000	2000 HK\$'000
Investment in subsidiaries	11	219,098	232,459
Current assets			
Dividend receivable		26,000	13,300
Bank balances and cash		1,205	—
		<u>27,205</u>	<u>13,300</u>
Current liabilities			
Other payables and accruals		9,200	5,877
Dividend payable		12,160	9,225
		<u>21,360</u>	<u>15,102</u>
Net current assets/(liabilities)		<u>5,845</u>	<u>(1,802)</u>
Total assets less current liabilities		<u>224,943</u>	<u>230,657</u>
Financed by:			
Share capital	16	60,798	61,500
Reserves	17	164,145	169,157
Shareholders' funds		<u>224,943</u>	<u>230,657</u>
On behalf of the Board			

José Manuel dos Santos
Director

Monica Maria Nunes
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash inflow/(outflow) from operating activities	18(a)	<u>52,796</u>	<u>(30,070)</u>
Returns on investments and servicing of finance			
Interest received		11,087	10,296
Dividends received from investments		686	—
Dividends paid		<u>(9,225)</u>	<u>(67,335)</u>
Net cash inflow/(outflow) from returns on investments and servicing of finance		<u>2,548</u>	<u>(57,039)</u>
Taxation			
Tax paid		(328)	—
Investing activities			
Purchase of fixed assets		(1,771)	(3,089)
Additional capital injection in an associated company		(946)	—
Purchase of associated companies		—	(37,617)
Purchase of subsidiaries	18(d)	3,645	—
Purchase of investment securities		<u>(4,529)</u>	<u>(11,866)</u>
Net cash outflow from investing activities		<u>(3,601)</u>	<u>(52,572)</u>
Net cash inflow/(outflow) before financing		<u>51,415</u>	<u>(139,681)</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June 2001

	Note	2001 HK\$'000	2000 HK\$'000
Financing			
Net proceeds from issue of shares	18(b)	—	153,864
Repurchase of shares	18(b)	(6,476)	—
Decrease in time deposits pledged for banking facilities		671	26,030
Net cash (outflow)/inflow from financing		<u>(5,805)</u>	<u>179,894</u>
Increase in cash and cash equivalents		45,610	40,213
Cash and cash equivalents at the beginning of the year		<u>179,838</u>	<u>139,625</u>
Cash and cash equivalents at the end of the year		<u><u>225,448</u></u>	<u><u>179,838</u></u>
Analysis of balances of cash and cash equivalents			
Bank balances and cash		<u>225,518</u>	<u>179,838</u>
Bank overdraft		<u>(70)</u>	<u>—</u>
		<u><u>225,448</u></u>	<u><u>179,838</u></u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 30th June 2001

	Note	2001 HK\$'000	2000 HK\$'000
(Deficit)/surplus on revaluation of investment securities	17	<u>(1,254)</u>	<u>1,399</u>
Net (losses)/gains not recognised in the profit and loss account		(1,254)	1,399
Profit for the year		<u>80,804</u>	<u>78,185</u>
Total recognised gains		79,550	79,584
Goodwill eliminated directly against reserves	17	<u>(15,697)</u>	<u>(28,232)</u>
		<u>63,853</u>	<u>51,352</u>

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

- (i) The accounts have been prepared under the historical cost convention as modified by the revaluation of investment securities, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.
- (ii) On 10th February 2000, the company became the holding company of other companies comprising the group pursuant to a group reorganisation (“the Reorganisation”) which included exchanges of shares. The Reorganisation involved companies under common control, and the company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated results of the group for the year ended 30th June 2000 include the results of the company and its subsidiaries with effect from 1st July 1999 or since their respective dates of incorporation, where this is a shorter period, as if the current group structure had been in existence throughout the year ended 30th June 2000.

(b) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 30th June. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the group are eliminated on consolidation.

A subsidiary is a company in which the company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the group’s share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account or retained earnings.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

In the company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

The merger reserve of the group includes the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of the shares issued by the company in exchange thereof, and also any existing balance on the share premium account of the subsidiaries.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the group's share of the results of associated companies for the year, and the consolidated balance sheet includes the group's share of the net assets of the associated companies.

In the company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of associated companies are accounted for by the company on the basis of dividends received and receivable.

(d) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition.

(e) Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture, fixtures and equipment	20% - 50%
Motor vehicles	20%
Demonstration equipment	33- $\frac{1}{3}$ %

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Fixed assets (Continued)

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Investment securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises invoiced cost of inventories. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the accounts. The deferred tax effect of timing differences, computed under the liability method, is recognised in the accounts to the extent it is probable a liability or an asset will crystallise in the foreseeable future.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(l) Revenue recognition

Revenue from the design 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 goods are delivered to the 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 title has passed.

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

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

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Retirement benefits costs

The group's contributions to the retirement schemes are expensed as incurred.

(n) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised.

(o) Comparatives

Where necessary, comparatives figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives have been adjusted or extended to take into account the requirements of the revised Statement of Standard Accounting Practice No. 14 "Leases" which the group implemented in the year ended 30th June 2001.

There are no changes in accounting policy that affect operating profit resulting from the adoption of the above standard in these accounts, as the group was already following the recognition and measurement principles in the above standard.

NOTES TO THE ACCOUNTS

2 REVENUES AND TURNOVER

The group is principally engaged in providing design and implementation of networking and related engineering services. Revenues recognised during the year are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Turnover		
Design and implementation of data networking systems and provision of related engineering services	471,885	428,385
Sale of goods	75,030	53,882
	<u>546,915</u>	<u>482,267</u>
Other revenues		
Dividend income from listed investments	686	—
Interest income	11,087	10,296
	<u>11,773</u>	<u>10,296</u>
Total revenues	<u><u>558,688</u></u>	<u><u>492,563</u></u>

3 OPERATING PROFIT

Operating profit is stated after charging the following:

	Group	
	2001 HK\$'000	2000 HK\$'000
Auditors' remuneration		
- current year	1,200	1,000
- under provision in previous year	235	—
Cost of inventories sold	394,417	325,957
Depreciation of fixed assets	2,188	1,312
Loss on disposal of fixed assets	97	—
Net exchange losses	1,163	680
Operating leases in respect of land and buildings	1,932	1,285
Provision for doubtful debts	357	9,771
Research and development costs	146	111
Retirement benefit costs (note 9)	502	—
Staff costs (including directors' emoluments)	<u>27,023</u>	<u>25,807</u>

NOTES TO THE ACCOUNTS

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 year. Macau complementary profits tax has been calculated at 15.75% on the estimated assessable profits of group companies operating in Macau.

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax	—	—
Macau complementary profits tax	14,429	14,616
	<u>14,429</u>	<u>14,616</u>

There was no material unprovided deferred taxation for the year (2000: Nil).

5 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the company to the extent of of HK\$12,922,000 (2000: HK\$12,300,000).

6 DIVIDENDS

	2001	2000
	HK\$'000	HK\$'000
Interim, paid, by subsidiaries to their then shareholders before group reorganisation (note (a))	—	10,352
Final, proposed, of HK\$0.02 (2000: HK\$0.015) per ordinary share	12,160	9,925
	<u>12,160</u>	<u>19,577</u>

(a) The dividend rates and the number of shares ranking for the dividends mentioned above were not presented as such information is not considered meaningful for the purpose of these consolidated accounts.

NOTES TO THE ACCOUNTS

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the group's profit attributable to shareholders of HK\$80,804,000 (2000: HK\$78,185,000). The basic earnings per share is based on the weighted average of 612,184,331 (2000: 533,701,000) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 30th June 2001 and 2000 respectively was not disclosed as there were no dilutive potential ordinary shares.

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the company during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	890	209
Other emoluments:		
Basic salaries and allowances	7,094	4,696
Bonuses	8,000	8,700
Pensions	18	—
	<u>16,002</u>	<u>13,605</u>

Directors' fees disclosed above include HK\$240,000 (2000: HK\$92,414) paid to independent non-executive directors.

During the year, 1,450,000 options were granted to the directors under the share option scheme approved by the shareholders. Each of the option entitles the holder to subscribe for one ordinary share of HK\$0.1 each in the company at a premium of HK\$1.09 each for the period from 16th August 2000 to 15th August 2003. No options had been exercised by the directors during the year.

The executive directors received individual emoluments for the year ended 30th June 2001 of approximately HK\$8,394,000 (2000: HK\$8,027,000), HK\$2,665,000 (2000: HK\$2,200,000), HK\$1,839,000 (2000: HK\$1,255,000), HK\$1,558,000 (2000: HK\$1,223,000) and HK\$1,306,000 (2000: HK\$900,000) respectively.

No directors waived or agreed to waive any of their emoluments in respect of the year ended 30th June 2001 and 2000.

NOTES TO THE ACCOUNTS

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the group for the year include five directors (2000: three) whose emoluments are reflected in the analysis presented above. For the year ended 30th June 2000, the emoluments payable to the two remaining individuals who were not directors are as follows :

	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	—	339
Bonuses	—	2,573
	<u>—</u>	<u>2,912</u>
	<u>—</u>	<u>2,912</u>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2001	2000
HK\$1,000,001 - HK\$1,500,000	—	1
HK\$1,500,001 - HK\$2,000,000	—	1
	<u>—</u>	<u>2</u>
	<u>—</u>	<u>2</u>

During the year ended 30th June 2001, no emoluments have been paid by the group to the directors or the five highest paid individuals as an inducement to join the group, or as compensation for loss of office.

9 RETIREMENT BENEFIT COSTS

The group did not provide retirement benefits for its employees in Hong Kong before 1st December 2000. With effect from 1st December 2000, a mandatory provident fund scheme has been set up for all the eligible employees of the group in Hong Kong. The mandatory provident fund scheme is a defined contribution retirement scheme and the contributions to the fund by the group and employees are calculated as a percentage of employees' basic salaries.

The employees of the representative offices of the group operating in mainland China participated in defined contribution retirement schemes in accordance with local government requirements. The contributions to the fund are calculated as a percentage of employee's basic salaries.

As at 30th June 2001, 34 employees based in Macau had completed the required number of years of service under the Macau Employment Relationship Decree ("Decree") and are eligible for long service payments on termination of their employment. The group is only liable to make such payments where the termination meets the required circumstances specified in the Decree. If the termination of all these employees met the circumstances required by the Decree, the group's maximum liabilities as at 30th June 2001 in this regard would be approximately HK\$5,598,000. No provision has been made for this amount in the accounts as it is not expected to be crystallised in the foreseeable future.

NOTES TO THE ACCOUNTS

10 FIXED ASSETS

	Group				
	Leasehold improvement	Furniture, fixture and equipment	Motor vehicles	Demonstration equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1st July 2000	2,486	2,363	1,172	1,349	7,370
Additions	135	1,459	177	—	1,771
Acquisition of subsidiaries	109	1,478	139	—	1,726
Disposals	(114)	(15)	—	—	(129)
At 30th June 2001	<u>2,616</u>	<u>5,285</u>	<u>1,488</u>	<u>1,349</u>	<u>10,738</u>
Accumulated depreciation					
At 1st July 2000	1,143	1,489	257	842	3,731
Charge for the year	486	1,019	233	450	2,188
Acquisition of subsidiaries	107	968	43	—	1,118
Disposals	(29)	(3)	—	—	(32)
At 30th June 2001	<u>1,707</u>	<u>3,473</u>	<u>533</u>	<u>1,292</u>	<u>7,005</u>
Net book value					
At 30th June 2001	<u>909</u>	<u>1,812</u>	<u>955</u>	<u>57</u>	<u>3,733</u>
At 30th June 2000	<u>1,343</u>	<u>874</u>	<u>915</u>	<u>507</u>	<u>3,639</u>

NOTES TO THE ACCOUNTS

11 INVESTMENT IN SUBSIDIARIES - COMPANY

	2001 HK\$'000	2000 HK\$'000
Investments, at cost (note (a))	73,918	73,918
Amounts due from subsidiaries (note (b))	146,678	158,541
Amount due to a subsidiary (note (b))	(1,498)	—
	<u>219,098</u>	<u>232,459</u>

(a) The following is a list of the subsidiaries at 30th June 2001:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/registered capital	Interest held	
				Directly	indirectly
Guangzhou Vodatel Development Limited ("GVDL")	The People's Republic of China ("PRC")	Wireless data communications and internet related products research and development/PRC	RMB3,000,000	—	54%
Guangzhou Information Communication Co., Ltd. ("GZIC")	PRC	Provision of internet related data services/PRC	RMB900,000	—	28% (note (i))
Mega Datatech Limited	Macau	Computer software and hardware integration /Macau	MOP100,000	—	100%
Vodatel China Holdings Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel China Limited	British Virgin Islands	Dormant	1,000 ordinary shares of US\$1 each	—	100%

NOTES TO THE ACCOUNTS

11 INVESTMENT IN SUBSIDIARIES - COMPANY (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/registered capital	Interest held	
				Directly	indirectly
Vodatel Data Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Holdings Limited	British Virgin Islands	Investment holding and design and implementation of data networking systems and the provision of related engineering services/Macau	10,000 ordinary shares of US\$1 each	100%	—
Vodatel Hong Kong Holdings Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Information Limited	British Virgin Islands	Dormant	1,000 ordinary shares of US\$1 each	—	100%
Vodatel International Holdings Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Networks Limited	British Virgin Islands	Investment holding and provision of supporting services to group companies/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Systems (HK) Limited	British Virgin Islands	Provision of warehouse services/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%

NOTES TO THE ACCOUNTS

11 INVESTMENT IN SUBSIDIARIES - COMPANY (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/registered capital	Interest held	
				Directly	indirectly
Vodatel Systems Inc.	British Virgin Islands	Design and implementation of data networking systems and the provision of related engineering services/Macau	1,000 ordinary shares of US\$1 each	—	100%
Vodatel Systems (Macau) Limited	British Virgin Islands	Dormant	1,000 ordinary shares of US\$1 each	—	100%
Worldtown International Limited	British Virgin Islands	Owner of intellectual property rights and trade marks/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%

Note:

(i) GVDL holds 51.82% interest directly in GZIC.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE ACCOUNTS

12 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets (note (a))	4,899	6,425
Advance to an associated company (note (b))	1,710	2,623
	<u>6,609</u>	<u>9,048</u>
Unlisted shares, at cost	<u>33,107</u>	<u>32,373</u>

(a) The following is a list of the associated companies at 30th June 2001:

Name	Place of incorporation/ establishment and business	Principal activities	Particulars of issued/registered capital	Interest held indirectly
Crossland Business Solution Limited	Hong Kong	Software production	100 ordinary shares of HK\$1 each	40%
Guangzhou Thinker Vodatel Development Company Limited	PRC	Investment holding	US\$3,000,000	49%
Oriental Skill Limited	Hong Kong	Provision of hardware consultancy services	10 ordinary shares of HK\$1 each	40%
vcShare Online Limited	Hong Kong	Provision of software consultancy services	1,000,000 ordinary shares of HK\$1 each	40%
Vodatel Crossland Technology Holdings Limited	British Virgin Islands	Investment holding	1,000 ordinary shares of US\$1 each	40%

(b) The advance to an associated company is unsecured, interest-free and have no fixed terms of repayments.

NOTES TO THE ACCOUNTS

13 INVESTMENT SECURITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Equity securities, at market value		
Listed in Hong Kong	10,770	8,100
Listed outside Hong Kong	3,135	5,165
	<u>13,905</u>	<u>13,265</u>
Unlisted	2,635	—
	<u>16,540</u>	<u>13,265</u>
Total	<u><u>16,540</u></u>	<u><u>13,265</u></u>

14 INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Networking equipment	88,072	35,994
Less: provision	(1,942)	(1,942)
	<u>86,130</u>	<u>34,052</u>
	<u><u>86,130</u></u>	<u><u>34,052</u></u>

At 30th June 2001, there were no inventories (2000: Nil) that are carried at net realisable value.

15 DUE TO A DIRECTOR - GROUP

The balance as at 30th June 2000 represented amount payable by a subsidiary of the company to a director of the company, Mr. Kuan Kin Man, for the acquisition of his 24% equity interest in GVDL.

NOTES TO THE ACCOUNTS

16 SHARE CAPITAL

	Authorised	
	No. of shares	HK\$'000
At 1st December 1999, date of incorporation	1,000,000	100
Increase in authorised ordinary share capital	1,999,000,000	199,900
	<u>2,000,000,000</u>	<u>200,000</u>
At 30th June 2000 and 2001	<u>2,000,000,000</u>	<u>200,000</u>
	<u><u>2,000,000,000</u></u>	<u><u>200,000</u></u>
	Issued and fully paid	
	No. of shares	HK\$'000
At 1st December 1999, date of incorporation	1,000,000	100
Issue of shares	125,500,000	12,550
Capitalisation issue	488,500,000	48,850
	<u>615,000,000</u>	<u>61,500</u>
At 30th June 2000	615,000,000	61,500
Repurchase of shares (note (a))	(7,016,000)	(702)
	<u>607,984,000</u>	<u>60,798</u>
At 30th June 2001	<u>607,984,000</u>	<u>60,798</u>
	<u><u>607,984,000</u></u>	<u><u>60,798</u></u>

Notes:

- (a) During the year, the company repurchased 7,016,000 of its own shares in the open market through the Growth Enterprise Market of the Hong Kong Stock Exchange, all of which have been duly cancelled. The total purchase price of the shares was HK\$6,476,000 with the maximum and minimum prices paid for each share being HK\$0.99 and HK\$0.81 respectively.

NOTES TO THE ACCOUNTS

16 SHARE CAPITAL (Continued)

- (b) Under a share option scheme approved by the shareholders, the directors of the company may, at their discretion, invite full-time employees including executive directors to take up options to subscribe for shares in the company representing up to a maximum of 10% of the shares in issue from time to time (excluding shares issued on exercise of options under the share option scheme).

On 15th August 2000, share options to subscribe for 1,450,000 and 4,466,000 shares were granted to certain directors of the company and certain employees of the group respectively. Details of the outstanding share options which have been granted to the directors of the company are as follows:

	Number of share options outstanding
Mr. José Manuel dos Santos	290,000
Mr. Yim Hong	290,000
Mr. Kuan Kin Man	290,000
Ms. Monica Maria Nunes	290,000
Mr. Ho Kwok Hung	290,000
	<hr/>
	1,450,000
	<hr/> <hr/>

As at 30th June 2001, all of the share options granted have not been exercised. The outstanding share options are exercisable at the price of HK\$1.19 per share and exercisable at any time from 16th August 2000 to 15th August 2003.

On 1st August 2001, share options to subscribe for 2,088,000 and 11,378,000 shares were granted to certain directors of the company and certain employees of the group respectively. Details of the outstanding share options which have been granted to the directors of the company are as follows:

	Number of share options outstanding
Mr. José Manuel dos Santos	522,000
Mr. Yim Hong	522,000
Mr. Kuan Kin Man	522,000
Ms. Monica Maria Nunes	522,000
	<hr/>
	2,088,000
	<hr/> <hr/>

The outstanding share options are exercisable at the price of HK\$0.79 per share and exercisable at any time from 1st February 2002 to 31st July 2004.

NOTES TO THE ACCOUNTS

17 RESERVES

	Group						
	Capital			Investment	Retained	Merger	Total
	Share redemption	reserve	revaluation				
	premium	reserve	reserve	earnings	(note (i))	Total	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1st July 1999	—	—	—	14,246	35,549	49,795	
Placing of shares	153,135	—	—	—	—	153,135	
Placing and listing expenses	(11,921)	—	—	—	—	(11,921)	
Capitalisation issue	(48,850)	—	—	—	—	(48,850)	
Surplus on revaluation of investment securities	—	—	1,399	—	—	1,399	
Profit for the year retained	—	—	—	58,608	—	58,608	
Goodwill written off on acquisition of associated companies	—	—	—	(28,232)	—	(28,232)	
At 30th June 2000	<u>92,364</u>	<u>—</u>	<u>1,399</u>	<u>44,622</u>	<u>35,549</u>	<u>173,934</u>	
Company and subsidiaries	92,364	—	1,399	44,959	35,549	174,271	
Associated companies	—	—	—	(337)	—	(337)	
At 30th June 2000	<u>92,364</u>	<u>—</u>	<u>1,399</u>	<u>44,622</u>	<u>35,549</u>	<u>173,934</u>	
At 1st July 2000	92,364	—	1,399	44,622	35,549	173,934	
Repurchase of shares	(5,774)	702	—	(702)	—	(5,774)	
Deficit on revaluation of investment securities	—	—	(1,254)	—	—	(1,254)	
Profit for the year retained	—	—	—	68,644	—	68,644	
Goodwill written off on acquisition of subsidiaries	—	—	—	(15,697)	—	(15,697)	
At 30th June 2001	<u>86,590</u>	<u>702</u>	<u>145</u>	<u>96,867</u>	<u>35,549</u>	<u>219,853</u>	
Company and subsidiaries	86,590	702	145	99,465	35,549	222,451	
Associated companies	—	—	—	(2,598)	—	(2,598)	
At 30th June 2001	<u>86,590</u>	<u>702</u>	<u>145</u>	<u>96,867</u>	<u>35,549</u>	<u>219,853</u>	

NOTES TO THE ACCOUNTS

17 RESERVES (Continued)

Note:

- (i) The merger reserve of the group includes the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the shares issued by the company in exchange thereof, and also an existing balance on the share premium account of a subsidiary.

	Company				
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	Contributed surplus HK\$'000	Total HK\$'000
At 1st July 1999	—	—	—	—	—
Placing of shares	153,135	—	—	—	153,135
Placing and listing expenses	(11,921)	—	—	—	(11,921)
Capitalisation issue	(48,850)	—	—	—	(48,850)
Contributed surplus arising on group reorganisation (note (i))	—	—	—	73,718	73,718
Profit for the year retained	—	—	3,075	—	3,075
At 30th June 2000	<u>92,364</u>	<u>—</u>	<u>3,075</u>	<u>73,718</u>	<u>169,157</u>
At 1st July 2000	92,364	—	3,075	73,718	169,157
Repurchase of shares	(5,774)	702	(702)	—	(5,774)
Profit for the year retained	—	—	762	—	762
At 30th June 2001	<u>86,590</u>	<u>702</u>	<u>3,135</u>	<u>73,718</u>	<u>164,145</u>

Note:

- (i) The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the company's shares issued for the acquisition at the time of the group reorganisation. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment be, unable to pay its liabilities as they become due, or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.
- (ii) Distributable reserves of the company at 30th June 2001 amounted to HK\$76,853,000 (2000: HK\$76,793,000).

NOTES TO THE ACCOUNTS

18 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities

	Group	
	2001 HK\$'000	2000 HK\$'000
Profit before taxation	95,233	92,801
Share of losses of associated companies	2,155	337
Depreciation	2,188	1,312
Loss on disposal of fixed assets	97	—
Decrease in amount due from an associated company	913	—
Increase in inventories	(48,978)	(1,906)
Decrease/(increase) in trade and bills receivable and other receivables, deposits and prepayments	21,396	(135,981)
Increase in trade and bills payable	23,422	43,853
(Decrease)/increase in other payables and accruals	(30,060)	4,993
Decrease in amount due to a director	(1,797)	(25,183)
Interest income	(11,087)	(10,296)
Dividend income	(686)	—
Net cash inflow/(outflow) from operating activities	<u>52,796</u>	<u>(30,070)</u>

(b) Analysis of changes in financing during the year

	Share capital including premium	
	2001 HK\$'000	2000 HK\$'000
Balance at the beginning of the year	153,864	—
Proceeds from issue of shares	—	214,635
Placing and listing expenses	—	(11,921)
Capitalisation issue	—	(48,850)
Repurchase of shares	(6,476)	—
Balance at the end of the year	<u>147,388</u>	<u>153,864</u>

NOTES TO THE ACCOUNTS

18 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Purchase of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired		
Fixed assets	608	—
Inventories	3,100	—
Trade and bills receivables	7,135	—
Other receivables, deposits and prepayments	4,994	—
Bank balances and cash	5,169	—
Due to a director	(1,585)	—
Trade and bills payables	(7,115)	—
Other payables and accruals	(10,491)	—
Bank overdraft	(70)	—
Bank loan, secured (note (i))	(204)	—
Minority shareholders' interests	(764)	—
	<u>777</u>	<u>—</u>
Goodwill	15,697	—
Carrying value of interest in an associated company	(317)	—
	<u>16,157</u>	<u>—</u>
Satisfied by cash	<u>16,157</u>	<u>—</u>

Note:

- (i) The loan is secured by an office premise owned by a previous shareholder of a subsidiary, as disclosed in note 20. Arrangement is being made by the group to terminate such bank loan facilities.

(d) Analysis of the net inflow in respect of the purchase of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	16,157	—
Bank balances and cash in hand acquired	(5,169)	—
Bank overdraft	70	—
Outstanding purchase consideration payable	(14,703)	—
	<u>(3,645)</u>	<u>—</u>
Net cash inflow in respect of the purchase of subsidiaries	<u>(3,645)</u>	<u>—</u>

NOTES TO THE ACCOUNTS

19 BANKING FACILITIES

At 30th June 2001, the group's banking facilities of HK\$193,080,000 (2000: HK\$130,000,000) are secured by the following:

- (a) charge on time deposits of HK\$2,137,000 held by the group;
- (b) corporate guarantee given by certain subsidiaries amounting to HK\$147,200,000;
- (c) corporate guarantee given by the company amounting to HK\$193,080,000; and
- (d) cross corporate guarantees between the company and certain subsidiaries amounting to HK\$50,000,000.

Subsequent to 30th June 2001, the group has obtained additional banking facilities of approximately HK\$30,880,000. These banking facilities require an additional corporate guarantee given by the company and certain subsidiaries of the company amounting to approximately HK\$30,880,000 and HK\$46,320,000 respectively, and cross corporate guarantees between certain subsidiaries amounting to approximately HK\$38,600,000.

20 BANK LOAN, SECURED

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank loan, secured (note 18(c)(i))	204	—
Current portion of bank loan, secured	(59)	—
	<u>145</u>	<u>—</u>

The bank loan is wholly repayable within five years.

At 30th June 2001, the group's bank loans and overdrafts were repayable as follows:

	2001	2000
	HK\$'000	HK\$'000
Within one year	59	—
In the second year	65	—
In the third to fifth year	80	—
	<u>204</u>	<u>—</u>

NOTES TO THE ACCOUNTS

21 CONTINGENT LIABILITIES

At 30th June 2001, the company has provided corporate guarantees of HK\$190,943,000 (2000: HK\$127,200,000) in favour of certain banks to secure banking facilities granted to certain subsidiaries.

22 COMMITMENTS

(a) Capital commitments

	Group	
	2001 HK\$'000	2000 HK\$'000
Contracted but not provided for	51	—
Authorised but not contracted for	1,456	—
	<u>1,507</u>	<u>—</u>

(b) Commitments under operating leases

At 30th June 2001, the group had future aggregate minimum lease payments under operating leases in respect of land and buildings as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	1,844	1,028
In the second to fifth year inclusive	740	1,192
After the fifth year	158	—
	<u>2,742</u>	<u>2,220</u>

NOTES TO THE ACCOUNTS

23 RELATED PARTY TRANSACTIONS

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

	2001 HK\$'000	2000 HK\$'000
Warehouse charges payable to Sistemas de Comunicações Vodatel (note (a))	—	564
Sales of goods to Zetronic Comunicações Lda (note (b))	869	13
Rental charges payable to a director of the company (note (c))	60	46
Business development fee payable to GVDL (note (d))	1,393	2,983
Network service fee payable to an associated company, Crossland Business Solution Limited ("CBS") (note (e))	825	—
Purchase of equity interest in GVDL from a director of the company (note 15)	—	212
	<u> </u>	<u> </u>

- (a) Sistemas de Comunicações Vodatel is a sole proprietorship registered in Macau and owned by Mr. José Manuel dos Santos, a director of the company. In the opinion of the directors of the company, the transactions were carried out in the ordinary course of business of the group. The transactions were terminated after the listing of the shares of the company.
- (b) 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.
- (c) The group leased its office premise from Mr. José Manuel dos Santos at a monthly rental of approximately HK\$5,000 commencing from 1st October 1999.
- (d) During the year, Mr. José Manuel dos Santos and a subsidiary of the company had 76% and 24% interests in GVDL respectively. On 15th June 2001, both Mr. José Manuel dos Santos and subsidiary of the company injected additional capital into GVDL. After the capital injection, Mr. José Manuel dos Santos and the subsidiary had 46% and 54% in GVDL respectively, and GVDL became an indirectly-held subsidiary of the company. GVDL acts as a representative office for the group in Guangzhou and it charges all expenses incurred on behalf of the group with an additional 2% markup as its service fee.
- (e) This represents a network service fee payable which is charged at terms mutually agreed between the group and CBS. 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.

NOTES TO THE ACCOUNTS

23 RELATED PARTY TRANSACTIONS (Continued)

(f) At 30th June 2001, the group had unsecured advances to the following associated companies:

	2001 HK\$'000	2000 HK\$'000
GVDL (note (i))	—	735
Vodatel Crossland Technology Company Limited ("VCT") (note (ii))	1,710	1,888

(i) The advance to GVDL was interest-free and repayable on demand. During the year, GVDL became an indirectly-held subsidiary of the company (note 23(d)).

(ii) The advance to VCT is interest-free and repayable on demand. The other shareholder of VCT, a third party, has also advanced to VCT an amount in proportion to its share of equity interest in VCT.

24 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 20th September 2001.

FIVE-YEAR FINANCIAL SUMMARY

	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	<u>546,915</u>	<u>482,267</u>	<u>478,420</u>	<u>416,151</u>	<u>341,210</u>
Profit attributable to shareholders	<u>80,804</u>	<u>78,185</u>	<u>71,929</u>	<u>49,857</u>	<u>35,559</u>
Total assets	<u>548,449</u>	<u>459,699</u>	<u>283,739</u>	<u>174,568</u>	<u>159,432</u>
Total liabilities	<u>(267,798)</u>	<u>(224,265)</u>	<u>(233,744)</u>	<u>(138,818)</u>	<u>(132,935)</u>
Net assets	<u>280,651</u>	<u>235,434</u>	<u>49,995</u>	<u>35,750</u>	<u>26,497</u>

The turnover, profit attributable to shareholders, total assets and total liabilities of the group for each of the four years ended 30th June 2000 have been prepared on the basis of merger accounting as if the group structure, at the time when the group reorganisation in February 2000 was completed, had been in existence throughout the accounting years presented.

Notice of Annual General Meeting

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Second Annual General Meeting of Shareholders of the Company will be held at the Bowen Room, Level 7, Conrad Hotel, Hong Kong, on Monday, 5th November, 2001 at 4:00 p.m. to transact the following businesses:-

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and Auditors for the period ended 30th June, 2001.
2. To approve the payment of a final dividend for the year ended 30th June, 2001.
3. To re-elect retiring Directors and authorise the Board of Directors to fix their remuneration.
4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.
5. To consider as special businesses and, if thought fit, pass the following resolutions as Ordinary Resolutions:-

A. "THAT:-

(a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company ("Directors") during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants, or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an options or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) of this Resolution), (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of options

Notice of Annual General Meeting

to subscribe for, or rights to acquire, shares of the Company or, (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the capital of the Company in lieu of the whole or part of the cash payment for any dividend on shares of the Company pursuant to the Bye-Laws of the Company from time to time, shall not in aggregate exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:-

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:-

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable laws of Bermuda to be held; and

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in Meeting.

"Right Issue" means the allotment, issue or grant of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the Directors made to holders of shares of the Company or any class thereof whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange or any territory outside Hong Kong applicable to the Company)."

B. "THAT:-

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its own issued shares of HK\$0.10 each in the capital of the Company in accordance with laws and requirements and regulations of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable

Notice of Annual General Meeting

laws and requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:-

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable laws of Bermuda to be held; and

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in Meeting."

C. "THAT:-

subject to the passing of the Ordinary Resolution Nos. 5A and 5B, the general mandate granted to the Directors of the Company to allot, issue and deal with additional securities pursuant to Resolution No. 5A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 5B, provided that such amount of shares so repurchased shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution."

By order of the Board
VODATEL NETWORKS HOLDINGS LIMITED
José Manuel dos SANTOS
Chairman
Hong Kong, 20th September, 2001

Notice of Annual General Meeting

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business:
Estrada D. Maria II
Ed. Industrial Cheong Long
4/F "B & C"
Macau

Place of Business in Hong Kong:
Room 1401, 14/F
China Merchants Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

1. The register of members of the Company will be closed from 1st November, 2001 to 5th November, 2001, both days inclusive, during which period no transfer of shares will be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Abacus Share Registrars Limited, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong, not later than 4:00 p.m. on 31st October, 2001.

2. Every member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies (if a member who is the holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.

3. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's principal place of business in Hong Kong at Room 1401, 14th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, not less than 48 hours before the appointed time for holding the Meeting or any adjournment thereof.

4. An Explanatory Statement containing further details regarding Ordinary Resolution No. 5B above as required by the Rules Governing the Listing of Securities on the Stock Exchange will be dispatched to the members of the Company together with the 2001 Annual Report.

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

* For identification purpose only

Abbreviations

ADSL	Asymmetric Digital Subscriber Line
Alcatel	Alcatel Networks Corporation
Alidian	Alidian Networks, Inc.
ATM	Asynchronous Transfer Mode
CDMA WLL	Code Division Multiple Access Wireless Local Loop
China Railcom	China Railway Communications Corporation
Cosine	CoSine Communications
DDN	Digital Data Network
DWDM	Dense Wavelength Division Multiplexer
Extreme	Extreme Networks, Inc.
IP	Internet Protocol
Juniper	Juniper Networks (Hong Kong) Limited
LAN	Local Area Network
LG	LG Information & Communications, Ltd.
LG TOPS	Guangzhou LG-TOPS Communication Technologies Co., Ltd.
Vodatel Crossland	Vodatel Crossland Technology Holdings Limited
VPN	Virtual Private Network
WAN	Wide Area Network