

2002 Annual Report

ADSL
CDMA WLL
DWDM
LAN
DDN
ATM
WAN
IP



VODATEL
10th Anniversary

GEM Disclaimer

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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CORPORATE INFORMATION

Directors

Executive Directors

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

Independent Non-Executive Directors

Chui Sai Cheong
Lo King Chiu, Charles

Authorized Representatives

Yim Hong
Monica Maria Nunes

Company Secretary

Cheung Yiu Leung, CPA, FCCA, AHKSA

Qualified Accountant

Cheung Yiu Leung, CPA, FCCA, 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

No.74 da Rua da Felicidade
Edf. Vodatel
Taipa, Macau
Tel: (853) 721182, 718033
Fax: (853) 717800, 752909

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

Website

<http://www.vodatelsys.com>

Bankers

Banco Comercial de Macau
Credit Agricole Indosuez
Dao Heng Bank
Hamburgische Landesbank
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

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



CHAIRMAN'S STATEMENT

FINANCIAL RESULTS

On behalf of the Board of Directors (the "Board"), I am pleased to present Vodatel's annual results for the financial year ended 30th June 2002 and to report that for seven consecutive years, we have announced an unbroken profit-making record. We recorded turnover of HK\$601.1 million (2001: HK\$546.9 million) with net profit amounting to HK\$57.0 million (2001(restated): HK\$54.1 million) and earnings per share of 9.37 HK cents (2001(restated): 8.84 HK cents). We delivered a return on equity of 17.3%, with net asset value of HK\$0.54 per share.

DIVIDEND

The Board proposed a final dividend of 0.5 HK cent per share for the fiscal year ended 30th June 2002 (2001: 2.0 HK cents). Together with the interim dividend of 1.0 HK cent, total dividends per share for the year will amount to 1.5 HK cents (2001: 2.0 HK cents).

INDUSTRY OVERVIEW

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

BUSINESS REVIEW

The fiscal year 2001/2 presented challenges and opportunities for Vodatel. Despite a difficult year as a result of the restructuring of the telecommunications industry during the year, we are able to well manage these changes and achieve stable gross margins and solid results in our core networking business. Building on our experience, market knowledge and well-established relationships with our customers, we successfully extended our customer installation base to Guangxi Zhuang Autonomous Region in the west and Hebei in the north, marking Vodatel's footprints in 18 provinces, municipalities and autonomous regions.

We have continued to identify equipment and technology that are best-of-the-breed for our customers. In addition to taking up carrier-class equipment from technology front-runners to enrich our array of data networking products and services, we have also made investment into mobile data solutions to better position ourselves in the wireless communications arena.

Our diversification into research and development of self-branded products to create a new revenue stream reaped us rewards. During the year under review, we successfully promoted Vodalimage to Guangdong China Mobile, completed the development of VodaMax and commenced selling of VCMS in the PRC.





PROSPECTS

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

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

Our ultimate goal to increase shareholders' value remains our top priority. Our greatest opportunity, which is also our biggest challenge, is to capitalize on the gradual liberation of the telecommunications market, using our proven track records to continue to build a successful story and to achieve solid performance. First, increasing revenue per customer and expanding our customer base. Through an expanded product offerings, diversification into areas that complement our core networking business and by capitalizing our strong market knowledge, on-the-ground experience and nationwide footprints, Vodatel is well positioned to be selected as the network solutions provider by our existing customers and by other local and foreign telecommunications service providers as they excel their growth

in the PRC. Second, managing our margins. We will cautiously invest into research and development of self-branded products and select good quality business opportunities that will generate new sources of revenue and strengthen our bottom-line. Third, controlling cost. We will undergo exercises to combine and realign resources to achieve cost savings, yet quality services will not be compromised.

APPRECIATION

Finally, I would like to thank our valued customers, business partners and reputable suppliers for their unrelenting support towards Vodatel throughout all these years. I would like to extend my appreciation to our staff for their diligence, dedication and teamwork to our remarkable achievements and the shareholders for their supporting during the year.

José Manuel dos Santos

Chairman

Hong Kong, 27th September 2002





MANAGEMENT DISCUSSION & ANALYSIS

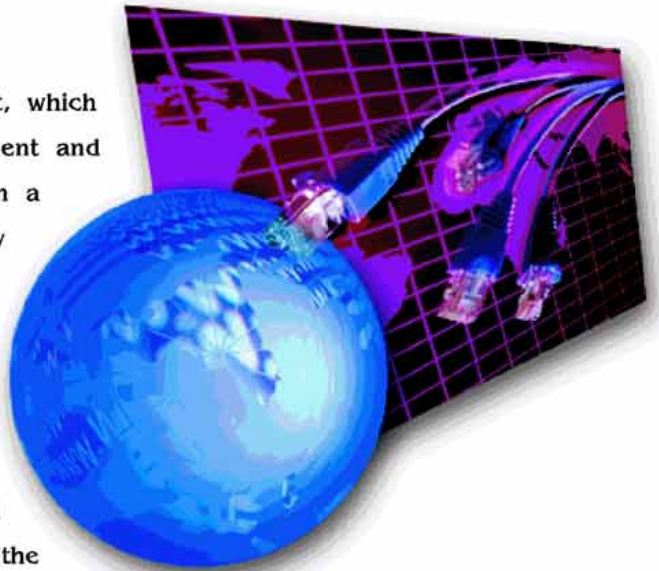
REVIEW OF BUSINESS ACTIVITIES

DATA NETWORK INFRASTRUCTURE

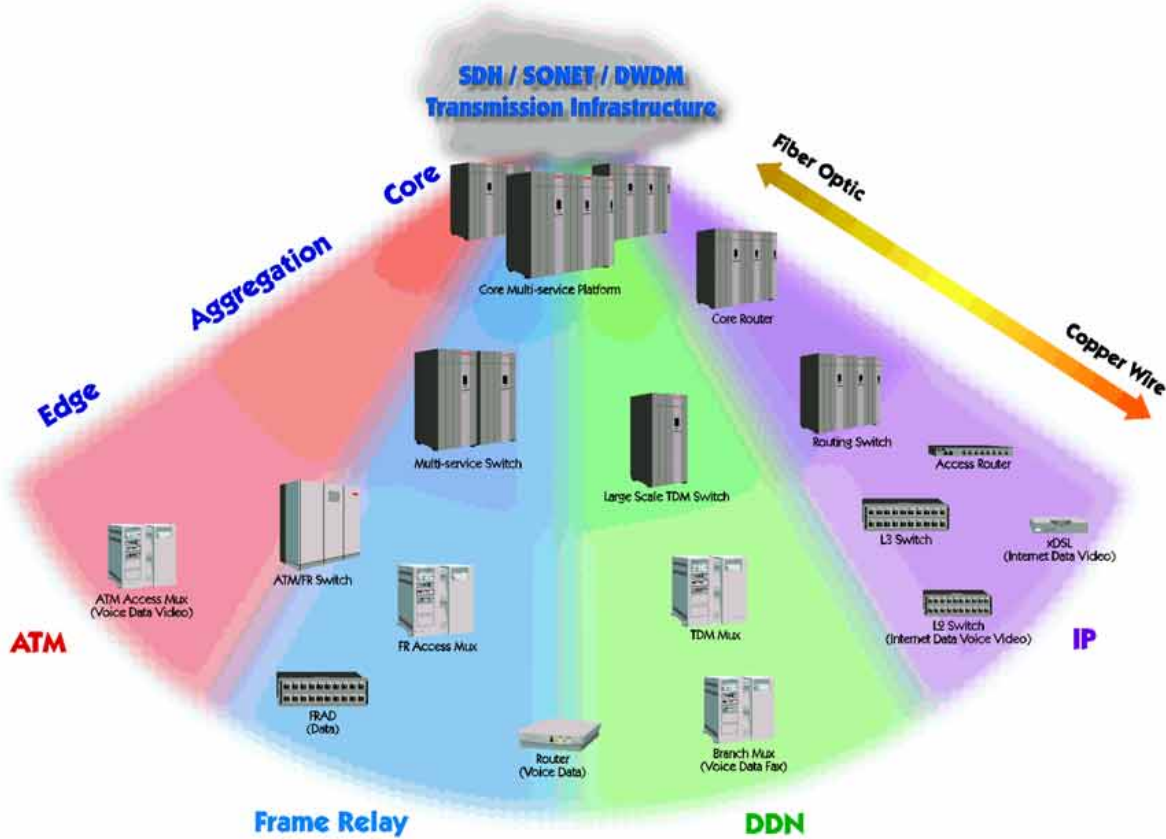
We continued to achieve steady results in our core business – the construction of public data infrastructure for telecommunications service providers in the PRC. Despite the reorganization of the telecommunications industry, the growing economy in the PRC has continued to drive an on-going expansion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

The integrated data networks concept, which promotes effective network management and efficient use of network resources on a unified platform, has been widely accepted and adopted by majority of our customers. Major projects awarded to us during the year included the HK\$11.1 million contract by Guizhou China Telecom to construct Guizhou's provincial broadband ATM network and to integrate with its existing DDN and the

HK\$20.2 million contract by Hunan China Telecom to upgrade and integrate its DDN and ATM/Frame Relay networks, not to mention the HK\$124.0 million contract from Guangdong China Telecom and an aggregate contracts of HK\$30.0 million from Shanghai China Telecom to expand and upgrade their existing integrated networks. The combination of our technical capability and market knowledge has further allowed us to expand our territorial reach. With the award of the HK\$27.7 million contract by Guangxi China Telecom to expand and realign their DDN and ATM/Frame Relay networks in the Guangxi Zhuang Autonomous Region and the HK\$26.9 million contract by Hebei China Telecom to expand its ATM networks and to integrate with its DDN in the Hebei Province, our customer installation base now spans in 18 provinces, municipalities and autonomous regions in the country.



SCHEMATIC DISTRIBUTION OF NETWORKING EQUIPMENT



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

TECHNICAL SERVICES

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





WIRELESS COMMUNICATIONS

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

SELF-DEVELOPED PRODUCTS

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

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

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



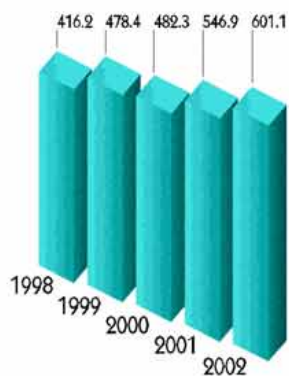
REVIEW OF OPERATING RESULTS

TURNOVER AND PROFITABILITY

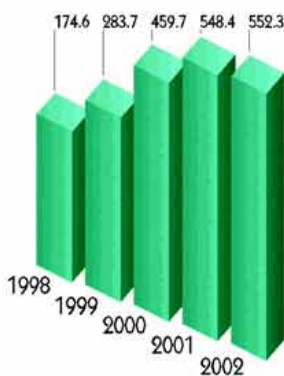
During the year, despite the restructuring of the telecommunications industry, we achieved turnover of HK\$601.1 million, representing an increase of 9.9% over the preceding year. This increase has been attributable to the growth in both of our project sales, which involved in the design, sale and implementation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

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

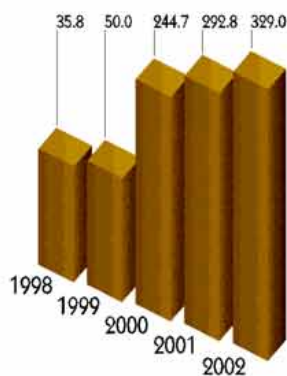
Turnover
(HK\$ Million)



Total Assets
(HK\$ Million)



Shareholders' Funds
(HK\$ Million)



Fiscal Year ended June 30

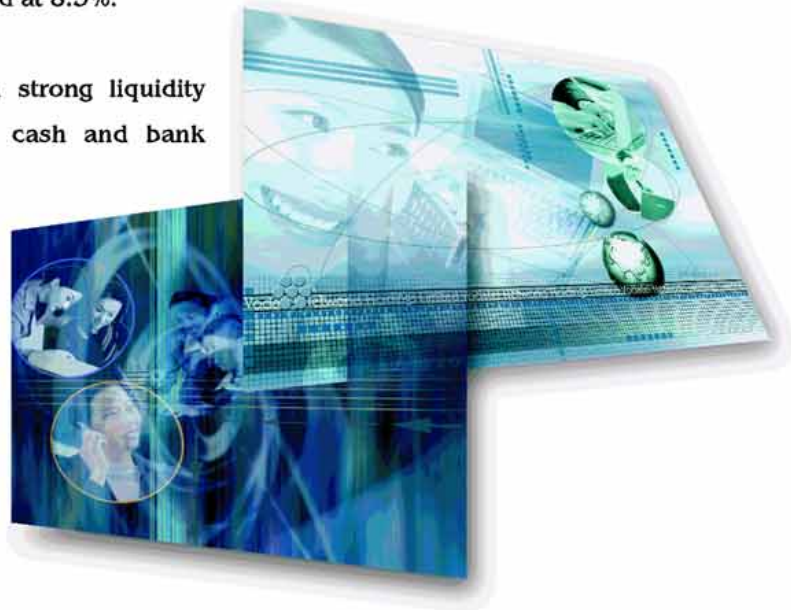
CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

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

EMPLOYEES' INFORMATION

As at 30th June 2002, the Group had 212 employees of which 75, 15 and 122 employees were based in Macau, Hong Kong and the PRC respectively. Employee costs, excluding directors' emolument, totaled HK\$17.8 million (2001: HK\$11.0 million). The Group remunerates employees based on their performance, experience and prevailing industry practices. It has adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares. It also offers benefits such as professional training programs to staff to enhance their sense of loyalty.



COMPARISON OF BUSINESS OBJECTIVES

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

Business Objectives

Revenue and business development

- Continue the business development activities from the last period

- Continue to expand sales from integrated data networks comprising DDN and Frame Relay/ATM, Internet access equipment, mobile networking solutions, broadband mobile data solutions and capture business opportunities facilitated by the PRC's entry into the WTO in the PRC

- Generate business from sales of IP over SDH systems in the PRC

- Expand the scope of operating data communications services in the PRC to the extent as allowed under the PRC law

Technical and engineering support

- Expand the training facilities in the PRC

Actual Business Progress

- Continued to be awarded projects for the construction of public data networks. With the award of the HK\$27.7 million contract by Guangxi China Telecom and the HK\$26.9 million by Hebei China Telecom, we successfully extended our foothold into 2 new territories, bringing our customer installation base from 16 to 18 provinces, municipalities and autonomous regions

- Customers continued to adopt the integrated data networks concept with contracts being awarded included the HK\$20.2 million contract by Hunan China Telecom, the HK\$8.9 million contract by Shandong China Telecom and the HK\$11.1 million contract by Guizhou China Telecom

- Commenced promotion of IP over SDH to telecommunications service providers

- Business model to roll out data communications services in the PRC under study

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

Business Objectives

R&D

- Continue the R&D activities from the previous period

- Research third-generation mobile communications applications

Acquisitions, joint ventures and collaborations

- Continue to explore collaboration opportunities in the PRC and overseas

Subsidiaries, representative offices and branches

- Implement the decision made in the previous period

Actual Business Progress

- Vodatel Crossland, to interface the IP routers and IP switches from other vendors into the network management system, VCMS, allowing the network management system to handle data traffic routing from equipment from an expanded array of vendors

- To work with LG TOPS to study the market development of third-generation mobile technology and applications

- Exploring collaboration opportunities with various business partners in selected countries in the Asia Pacific region

- Under review and to be in conjunction with our expansion plan into the Asia Pacific region

APPLICATIONS AND COMPARISON OF USE OF PROCEEDS

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

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

Use of proceeds as stated in the Prospectus

- Approximately HK\$10 million for the expansion of market share into the selected vertical markets in the PRC through marketing and promotion
- Approximately HK\$10 million for the set up or expansion of new offices in Macau, Hong Kong and representative offices in the PRC
- Approximately HK\$25 million of the market development and the promotion of mobile telecommunications
- Approximately HK\$25 million for the development of ISP, e-commerce and Internet-related products and business; and approximately HK\$20 million for the R&D in and the promotion of Internet access equipment
- Approximately HK\$10 million for the enhancement of the R&D department and for the development of products under its own brand name
- Approximately HK\$54 million of the balance of the net proceeds for additional working capital

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

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

Application of proceeds during the current financial year:

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

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

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



Mr. YIM Hong

Mr. KUAN Kin Man

Ms. Monica Maria NUNES

Mr. José Manuel dos SANTOS

Mr. CHUI Sai Cheong

Mr. LO King Chiu, Charles

(from left to right)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. José Manuel dos SANTOS, aged 54, 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 Comunicações Lda. and subsequently the Group.

Mr. YIM Hong, aged 44, 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 Networks Corporation and the Country Manager at 3Com Corporation.

Mr. KUAN Kin Man, aged 37, is a Director and the General Manager of the Group in charge of sales and marketing. In 1985, he joined Zetronic Comunicações Lda. 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 33, is a Director and the Financial Controller of the Group. She graduated from the University of Calgary, Canada with a Bachelor of Commerce degree. She joined the Group in 1999 and has over 10 years of accounting and banking experience. She holds a Certified Management Accountant Designation from the Society of Management Accountants of Alberta, Canada.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHUI Sai Cheong, aged 48, 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 58, 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.

SENIOR MANAGEMENT (By alphabetical order)

Mr. CHAN Chi Pio, aged 33, 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. HO Wai Sam, Paul, aged 40, 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 Companhia de Telecomunicações de Macau 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. KUOK Cheong Weng, aged 54, 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 Mastermind Zhuhai Ltd. and Heng Va Company which are companies engaged in consultancy business. He joined the Group in 1998.

Mr. MOK Chi Va, Andy, aged 37, 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.

Mr. NG Ka Leung, aged 33, 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. PONG Chi Wai, aged 38, 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. RAO Hui, aged 31, 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. SI I Hong, aged 34, 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. WANG Hai Tao, 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 China Telecom before joining the Group.

Mr. WANG Qing, aged 32, 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. WONG Chi Ping, aged 53, is the Business Development Director of the Group. Mr. Wong has over 20 years of experience in the audio and electronic industries in PRC, Macau and Hong Kong. Prior to his joining the Group in 1999, Mr. Wong worked for Zetronic Comunicações Lda. for more than 10 years responsible for the operation and marketing of voice telecommunications business.

Mr. WONG Wai Kan, aged 38, 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. YUN Jun, aged 32, 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.

Mr. ZENG Qing Shi, aged 32, 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. ZHONG Min, aged 40, 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.

The directors submit their report together with the audited accounts for the year ended 30th June 2002.

Principal activity and geographical analysis of operations

The principal activity of the company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the group's turnover and contribution to operating profit for the year by business and geographical segment is set out in note 2 to the accounts.

Results and appropriations

The results of the group for the year are set out in the consolidated profit and loss account on page 38.

The details of dividends proposed and/or paid during the year are set out in note 7 to the accounts.

Reserves

Movements in the reserves of the company and the group during the year are set out in note 20 to the accounts.

Donations

Charitable and other donations made by the group during the year amounted to HK\$117,000.

Fixed assets

Details of the movements in fixed assets of the group are set out in note 11 to the accounts.

Share capital

Details of the movements in share capital of the company are set out in note 19 to the accounts.

Convertible bonds

Details of the convertible bonds issued by the group during the year are set out in note 18 to the accounts.



Distributable reserves

Distributable reserves of the company at 30th June 2002, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$86,765,000 (2001(restated): HK\$89,013,000).

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 83.

Purchase, sale or redemption of shares

The company has not redeemed any of its shares during the year. Neither the company nor any of its subsidiaries has purchased or sold any of the company's shares 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 (resigned on 10th January 2002)

* 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. Chui Sai Cheong retires at the forthcoming annual general meeting but, being eligible, offers himself 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 13th December 2004.

Directors' service contracts

Each of the executive directors, except for Mr. Ho Kwok Hung, has entered into a service agreement with the company which expired on 11th August 2002 and renewed for a term of two and a half years commencing from 12th August 2002. The service agreements shall continue thereafter until terminated by either party giving to the other at least six months' notice in writing. The service agreement with Mr. Ho Kwok Hung was terminated on 10th January 2002 upon Mr. Ho Kwok Hung's resignation as a director.

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 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 20 to 24.



Directors' interests in contracts

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

- (a) During the year, Mr. José Manuel dos Santos and a subsidiary of the company had 46% and 54% interests in Guangzhou Vodatel Development Limited ("GVDL"), 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 an agent for developing its business in the People's Republic of China excluding Macau and Hong Kong (the "PRC") and GVDL agreed to introduce third-party purchases in the PRC 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 or 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.

Connected transactions

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

Certain subsidiaries of the company have made advances to an associated company, Vodatel Crossland Technology Holdings Limited ("VCT"), to finance the working capital requirement of VCT. At 30th June 2002, the amount due from VCT to the group was approximately HK\$2,996,000. The other shareholder of VCT, a third party, has also advanced to VCT an amount exceeding the proportion of its share of equity interest in VCT as at 30th June 2002.

Directors' interests in equity or debt securities

At 30th June 2002, the interests of the directors in the shares and options of the company and its associated corporations (within the meaning of 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 were as follows:

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

Note:

These shares are held in the name of Eve Resources Limited. The entire issued share capital in Eve Resources Limited is in turn held by a company wholly-owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust.



Share options

Pursuant to a resolution passed on 10th February 2000, a share option scheme (the "Scheme") was approved by shareholders of the company.

On 16th August 2000 and 1st August 2001 respectively, share options were granted to directors, executives and employees of the company. Details of the scheme are as follows:

(a) Purpose

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

(b) Qualified participants

Any full-time employee including any executive director of the company and its subsidiaries.

(c) Maximum number of shares

The total number of shares available for issue under the Scheme as at 30th June 2002 is 60,798,400, representing 10% of the issued share capital of the company as at 30th June 2002.

(d) Maximum entitlement of each qualified participant

No option may be granted to any qualified participant which, if exercised in full, would result in the total number of shares already issued and issuable to him/her under the Scheme exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

(e) Options exercisable period

Options may be exercised in a period of 3 years commencing on the expiry of 6 months after the date on which the option is granted and accepted by the grantee, and expiring on 10th February 2010, whichever is the earlier.

(f) Payment on acceptance of option

Pursuant to the Scheme, HK\$1.00 per grant of the option shall be payable by the participant to the company in exercising the right to accept an offer of the option. The option shall remain open for acceptance for a period of 28 days from the date on which an option is offered to the grantee.

(g) Basis of determining the exercise price

The exercise price shall be at least the higher of (i) the closing price of shares on the Stock Exchange of Hong Kong ("the Exchange") as stated in the Exchange's daily quotation sheet on the date of which options are offered ("Offer Date") and (ii) the average closing price of the shares as stated in the Exchange's daily quotation sheets for the 5 business days immediately preceding the Offer Date.

Share options (Continued)

(h) Remaining life of the Scheme

The Scheme will remain valid until 10th February 2010.

Details of the share options outstanding as at 30th June 2002 which have been granted under the Scheme are as follows:

| | Options held at 1st July 2001 | Options granted during the year | Options lapsed during the year | Options held at 30th June 2002 | Exercise price HK\$ | Grant date | Exercisable from | Exercisable until |
|-----------------------------|-------------------------------|---------------------------------|--------------------------------|--------------------------------|---------------------|------------------|--------------------|--------------------|
| Mr. José Manuel dos Santos | 290,000 | — | — | 290,000 | 1.19 | 16th August 2000 | 16th February 2001 | 15th February 2004 |
| | — | 522,000 | — | 522,000 | 0.79 ⁽ⁱ⁾ | 1st August 2001 | 1st February 2002 | 31st January 2005 |
| Mr. Yim Hong | 290,000 | — | — | 290,000 | 1.19 | 16th August 2000 | 16th February 2001 | 15th February 2004 |
| | — | 522,000 | — | 522,000 | 0.79 ⁽ⁱ⁾ | 1st August 2001 | 1st February 2002 | 31st January 2005 |
| Mr. Kuan Kin Man | 290,000 | — | — | 290,000 | 1.19 | 16th August 2000 | 16th February 2001 | 15th February 2004 |
| | — | 522,000 | — | 522,000 | 0.79 ⁽ⁱ⁾ | 1st August 2001 | 1st February 2002 | 31st January 2005 |
| Ms. Monica Maria Nunes | 290,000 | — | — | 290,000 | 1.19 | 16th August 2000 | 16th February 2001 | 15th February 2004 |
| | — | 522,000 | — | 522,000 | 0.79 ⁽ⁱ⁾ | 1st August 2001 | 1st February 2002 | 31st January 2005 |
| Mr. Ho Kwok Hung (resigned) | 290,000 | — | (290,000) ⁽ⁱⁱ⁾ | — | 1.19 | 16th August 2000 | 16th February 2001 | 15th February 2004 |
| Other employees | 4,466,000 | — | — | 4,466,000 | 1.19 | 16th August 2000 | 16th February 2001 | 15th February 2004 |
| | — | 11,378,000 | — | 11,378,000 | 0.79 ⁽ⁱ⁾ | 1st August 2001 | 1st February 2002 | 31st January 2005 |

Notes:

- (i) At the date before the options of exercise price of HK\$0.79 were granted, which was 31st July 2001, the market value per share was HK\$0.78.
- (ii) Options granted to Mr. Ho Kwok Hung lapsed upon his resignation as a director of the company with effect from 10th January 2002.

Share options (Continued)

In assessing the value of the share options granted during the year ended 30th June 2002, the Black-Scholes option pricing model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models as set out in Chapter 23 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"). The variables of the Black-Scholes Model include expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the company.

In assessing the value of the share options granted during the year to directors, chief executives and other employees, the following variables have been applied to the Black-Scholes Model:

| Variable | Measurement Date 1st August 2001 |
|-------------------------|---|
| Expected life | 3 years |
| Risk-free rate | 4.46% |
| Expected volatility | 68.21% |
| Expected dividend yield | 2.19% |

The above variables were determined as follows:

- (a) The expected life is estimated to be 3 years from the date of grant (the "Measurement Date").
- (b) The risk-free rate represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- (c) The expected volatility represents the standard deviation of the daily closing share prices of the company for the last twelve months from the Measurement Date.
- (d) The expected dividend yield is based on the dividend declared most recently expressed as a percentage of the share price.

Share options (Continued)

Using the Black-Scholes Model in assessing the value of share options granted during the year, the options would have an aggregate value of approximately HK\$4,578,440 represented as follows:

| Directors, chief executives and other employees | Date of issue | Number of share options granted during the year | Estimated value per option HK\$ | Estimated value of options granted during the year HK\$ |
|--|----------------------|--|--|--|
| Mr. José Manuel dos Santos | 1st August 2001 | 522,000 | 0.34 | 177,480 |
| Mr. Yim Hong | 1st August 2001 | 522,000 | 0.34 | 177,480 |
| Mr. Kuan Kin Man | 1st August 2001 | 522,000 | 0.34 | 177,480 |
| Ms. Monica Maria Nunes | 1st August 2001 | 522,000 | 0.34 | 177,480 |
| Other employees | 1st August 2001 | 11,378,000 | 0.34 | 3,868,520 |
| | | | Total | <u>4,578,440</u> |

In assessing the aggregate value of the share options, no adjustment has been made for possible future forfeiture of the options. No charge is recognised in the profit and loss account in respect of the value of options granted during the year. The share options granted will be recognised in the balance sheet at the time when the share options are exercised. Share capital will be credited at par for each share issued upon the exercise of share options, with share premium credited at the excess of net proceeds received over total share capital credited.

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the value of share options granted during the year. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

Substantial shareholders

At 30th June 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the company had been notified of the following substantial shareholder's interest, being 10% or more of the company's issued share capital.

| 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

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

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

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 | 88% |
| Sales | |
| - the largest customer | 21% |
| - five largest customers combined | 45% |

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.

Directors' interest in competing business

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

Subsequent event

An amount of HK\$2,568,000 was advanced to an associated company, Guangzhou Thinker Vodatel Development Company Limited ("GZ Thinker"), for a further acquisition of an 11% equity interest in GZ Thinker by the group for which approval is pending as at 30th June 2002. Subsequent to the year end, approval has been granted and GZ Thinker has become a subsidiary of the company.

Board practices and procedures

The company has complied with the Board Practices and Procedures as set out in rules 5.28 to 5.39 to the GEM Listing Rules.



Audit committee

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

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 Chiu, Charles and an executive director, Mr. José Manuel dos Santos. Two meetings were held during the current financial year.

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, 16th September 2002

AUDITORS' REPORT TO THE SHAREHOLDERS OF VODATEL NETWORKS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts set out on pages 38 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors of the company are responsible 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 affairs of the company and of the group as at 30th June 2002 and of the group's profit and cash flows 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, 16th September 2002

For the year ended 30th June 2002

| | Note | 2002 HK\$'000 | 2001 HK\$'000 (restated) |
|---|------|-------------------|--------------------------------|
| Turnover | 2 | 601,108 | 546,915 |
| Cost of sales | | (448,860) | (397,933) |
| Gross profit | | 152,248 | 148,982 |
| Other revenues | 2 | 4,237 | 11,773 |
| Selling expenses | | (13,539) | (5,745) |
| Administrative expenses | | (72,585) | (57,622) |
| Impairment of goodwill | 1(d) | — | (26,668) |
| Operating profit | 3 | 70,361 | 70,720 |
| Finance cost | 4 | (173) | — |
| Share of losses of associated companies | | (876) | (2,155) |
| Profit before taxation | | 69,312 | 68,565 |
| Taxation | 5 | (10,557) | (14,429) |
| Profit after taxation | | 58,755 | 54,136 |
| Minority interests | | (1,763) | — |
| Profit attributable to shareholders | 6 | 56,992 | 54,136 |
| Dividends | 7 | 9,120 | 12,160 |
| Basic earnings per share | 8 | 9.37 cents | 8.84 cents |
| Fully diluted earnings per share | 8 | 9.33 cents | N/A |

As at 30th June 2002

| | Note | 2002 HK\$'000 | 2001 HK\$'000 (restated) |
|---|------|------------------|--------------------------------|
| Fixed assets | 11 | 3,227 | 3,733 |
| Investments in associated companies | 13 | 6,591 | 6,609 |
| Non-trading securities | 14 | 16,450 | 16,540 |
| Current assets | | | |
| Inventories | 15 | 110,812 | 86,130 |
| Trade and bills receivables | 16 | 191,357 | 196,805 |
| Other receivables, deposits and prepayments | | 10,478 | 10,977 |
| Pledged time deposits | | — | 2,137 |
| Bank balances and cash | | 213,360 | 225,518 |
| | | 526,007 | 521,567 |
| Current liabilities | | | |
| Trade and bills payables | 17 | 98,465 | 158,040 |
| Other payables and accruals | | 43,651 | 54,528 |
| Convertible bonds | 18 | 17,505 | — |
| Taxation payable | | 51,263 | 42,032 |
| Bank overdraft | | — | 70 |
| Bank loan, secured | | — | 59 |
| | | 210,884 | 254,729 |
| Net current assets | | 315,123 | 266,838 |
| Total assets less current liabilities | | 341,391 | 293,720 |
| Financed by: | | | |
| Share capital | 19 | 60,798 | 60,798 |
| Reserves | 20 | 265,198 | 219,853 |
| Proposed dividends | 20 | 3,040 | 12,160 |
| Shareholders' funds | | 329,036 | 292,811 |
| Minority interests | | 2,630 | 764 |
| Convertible bonds | 18 | 9,725 | — |
| Bank loan, secured | | — | 145 |
| | | 341,391 | 293,720 |

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

As at 30th June 2002

| | Note | 2002 HK\$'000 | 2001 HK\$'000 (restated) |
|---------------------------------------|------|------------------|--------------------------------|
| Investments in subsidiaries | 12 | 213,927 | 219,098 |
| Current assets | | | |
| Dividends receivable | | 55,000 | 26,000 |
| Bank balances and cash | | 733 | 1,205 |
| | | 55,733 | 27,205 |
| Current liabilities | | | |
| Other payables and accruals | | 7,575 | 9,200 |
| Convertible bonds | 18 | 17,505 | — |
| | | 25,080 | 9,200 |
| Net current assets | | 30,653 | 18,005 |
| Total assets less current liabilities | | 244,580 | 237,103 |
| Financed by: | | | |
| Share capital | 19 | 60,798 | 60,798 |
| Reserves | 20 | 171,017 | 164,145 |
| Proposed dividends | 20 | 3,040 | 12,160 |
| Shareholders' funds | | 234,855 | 237,103 |
| Convertible bonds | 18 | 9,725 | — |
| | | 244,580 | 237,103 |

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

For the year ended 30th June 2002

| | Note | 2002 HK\$'000 | 2001 HK\$'000 (restated) |
|--|-------|------------------|--------------------------------|
| Cash (outflow)/inflow from operating activities | 21(a) | (20,006) | 52,796 |
| Interest received | | 3,588 | 11,087 |
| Interest paid | | (173) | — |
| Dividends received from investments | | 649 | 686 |
| Dividends paid | | (18,240) | (9,225) |
| Taxation paid | | (1,326) | (328) |
| Net cash (outflow)/inflow from operating activities | | (35,508) | 55,016 |
| Cash flows from investing activities | | | |
| Purchase of fixed assets | | (1,687) | (1,771) |
| Additional capital injection in an associated company | | — | (946) |
| Purchase of subsidiaries | | — | 3,645 |
| Purchase of non-trading securities | | (4,056) | (4,529) |
| Net cash outflow from investing activities | | (5,743) | (3,601) |
| Cash flows from financing activities | 21(b) | | |
| Repurchase of shares | | — | (6,476) |
| Decrease in time deposits pledged for banking facilities | | 2,137 | 671 |
| Repayment of a bank loan | | (204) | — |
| Proceeds from issuance of convertible bonds | | 27,230 | — |
| Net cash inflow/(outflow) from financing | | 29,163 | (5,805) |
| (Decrease)/increase in cash and cash equivalents | | (12,088) | 45,610 |
| Cash and cash equivalents at the beginning of the year | | 225,448 | 179,838 |
| Cash and cash equivalents at the end of the year | | 213,360 | 225,448 |
| Analysis of balances of cash and cash equivalents | | | |
| Bank balances and cash | | 213,360 | 225,518 |
| Bank overdraft | | — | (70) |
| | | 213,360 | 225,448 |

For the year ended 30th June 2002

| | Note | Group | |
|--|------|------------------|------------------|
| | | 2002 HK\$'000 | 2001 HK\$'000 |
| Total equity balance at the beginning of the year (as previously reported) | | 280,651 | 235,434 |
| Effect of adopting SSAP 9 (revised) | 1(r) | 12,160 | 9,225 |
| Total equity balance at the beginning of the year (restated) | | 292,811 | 244,659 |
| Repurchase of shares | | — | (6,476) |
| Deficit on revaluation of non-trading securities | | (2,517) | (1,254) |
| Exchange differences arising on translation of accounts of overseas subsidiaries and an associated company | | (10) | — |
| Goodwill written off on acquisition of subsidiaries | | — | (15,697) |
| Effect of adopting SSAP 30 and SSAP 31 | 1(d) | — | 26,668 |
| Net gains and losses not recognised in the consolidated profit and loss account | | (2,527) | 3,241 |
| | | 290,284 | 247,900 |
| Profit attributable to shareholders | | 56,992 | 54,136 |
| 1999/2000 Final dividends paid | | — | (9,225) |
| 2000/2001 Final dividends paid | | (12,160) | — |
| 2001/2002 Interim dividends paid | | (6,080) | — |
| Total equity balance at the end of the year | | 329,036 | 292,811 |

For the year ended 30th June 2002

| | Note | Company | |
|---|------|------------------|------------------|
| | | 2002 HK\$'000 | 2001 HK\$'000 |
| Total equity balance at the beginning of the year (as previously reported) | | 224,943 | 230,657 |
| Effect of adopting SSAP 9 (revised) | 1(r) | 12,160 | 9,225 |
| Total equity balance at the beginning of the year (restated) | | 237,103 | 239,882 |
| Repurchase of shares | | — | (6,476) |
| Net gains and losses not recognised in the profit and loss account | | — | (6,476) |
| Profit attributable to shareholders | | 15,992 | 12,922 |
| 1999/2000 Final dividends paid | | — | (9,225) |
| 2000/2001 Final dividends paid | | (12,160) | — |
| 2001/2002 Interim dividends paid | | (6,080) | — |
| Total equity balance at the end of the year | | 234,855 | 237,103 |

1 Principal accounting policies

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

(a) Basis of preparation

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

| | | |
|------------------|---|--|
| SSAP 9 (revised) | : | Events after the balance sheet date |
| SSAP 26 | : | Segment reporting |
| SSAP 28 | : | Provisions, contingent liabilities and contingent assets |
| SSAP 30 | : | Business combinations |
| SSAP 31 | : | Impairment of assets |
| SSAP 32 | : | Consolidated financial statements and accounting for investments in subsidiaries |

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

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

The effects of adopting these new/revised standards are set out in the accounting policies below.

1 Principal accounting policies (Continued)

(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 unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and also any related exchange reserve.

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

In the company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. 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.



1 Principal accounting policies (Continued)

(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 for impairment losses. 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 the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition.

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

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

1 Principal accounting policies (Continued)

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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- $\frac{1}{3}$ % |

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.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired.

If any such indication exists, the recoverable amount of the asset is estimated and, where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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.

1 Principal accounting policies (Continued)

(g) Non-trading 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.

(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) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(k) Provisions

In accordance with SSAP 28, provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1 Principal accounting policies (Continued)

(l) 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 that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) 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 balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss account of foreign enterprises was translated at closing rates. This is a change in accounting policy, however, the translation of the profit and loss account of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

(n) Revenue recognition

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

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

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

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



1 Principal accounting policies (Continued)

(o) Retirement benefits costs

The subsidiaries of the company in Hong Kong, Macau and the People's Republic of China (the "PRC" (Note)) are required to make contributions for their employees to retirement schemes managed by relevant local authorities in accordance with their rules and regulations. Contributions to these retirement schemes are charged to the profit and loss account in the year in which they are incurred.

Note:

The PRC, for the purposes of these accounts, excludes Hong Kong and Macau.

(p) Research and development costs

Research and development costs are expensed as incurred, except for where it is expected that the product under development will be profitable and will be produced and its technical feasibility has been demonstrated. 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.

(q) Segment reporting

In accordance with the group's internal financial reporting the group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of inventories and operating receivables, and mainly exclude investments in associated companies and non-trading securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (Note 11) and additions resulting from acquisitions through purchases of subsidiaries and associated companies.

In respect of geographical segment reporting, sales are based on the country in which the works are carried out and services are delivered. Total assets and capital expenditure are where the customers are located.

1 Principal accounting policies (Continued)

(r) Dividends

In accordance with the revised SSAP 9, the group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively and the comparatives presented have been restated to conform to the changed policy.

As detailed in note 20, this change has resulted in an increase in opening retained earnings at 1st July 2001 by HK\$12,160,000 which is the reversal of the provision for 2000/2001 final dividend proposed previously recorded as a liability as at 30th June 2001 although not declared until after the balance sheet date. The comparatives have been affected in a similar way.

2 Turnover, revenues and segment information

The group is principally engaged in the design, sale and implementation of data networking systems and provision of related engineering services and sale of goods. Revenues recognised during the year are as follows:

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

2 Turnover, revenues and segment information (Continued)

Primary reporting format - business segments

The group is organised into two main business segments:

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

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

| | Design, sale and implementation of data networking systems and provision of related engineering services 2002 | Sale of goods 2002 | Group 2002 |
|--|--|-----------------------------------|-----------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 521,582 | 79,526 | 601,108 |
| Segment results | 69,994 | 15,931 | 85,925 |
| Unallocated income | | | 4,237 |
| Unallocated cost | | | (19,801) |
| Operating profit | | | 70,361 |
| Finance cost | | | (173) |
| Share of losses of associated companies | | | (876) |
| Profit before taxation | | | 69,312 |
| Taxation | | | (10,557) |
| Profit after taxation | | | 58,755 |
| Minority interests | | | (1,763) |
| Profit attributable to shareholders | | | 56,992 |
| Segment assets | 275,777 | 26,392 | 302,169 |
| Investments in associated companies | | | 6,591 |
| Unallocated assets | | | 243,515 |
| Total assets | | | 552,275 |
| Segment liabilities | 86,733 | 11,732 | 98,465 |
| Unallocated liabilities | | | 124,774 |
| Total liabilities | | | 223,239 |
| Unallocated capital expenditure | | | 5,743 |
| Unallocated depreciation | | | 2,210 |
| Unallocated impairment charge | | | 1,674 |
| Other non-cash expenses | 117 | 26 | 143 |
| Unallocated non-cash expenses | | | 2,998 |

2 Turnover, revenues and segment information (Continued)

Primary reporting format - business segments (Continued)

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

2 Turnover, revenues and segment information (Continued)

Secondary reporting format - geographical segment

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

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

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

2 Turnover, revenues and segment information (Continued)

Secondary reporting format - geographical segment (Continued)

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

3 Operating profit

Operating profit is stated after crediting and charging the following:

| | Group | |
|---|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Crediting | | |
| Net exchange gain | <u>1,654</u> | <u>—</u> |
| Charging | | |
| Auditors' remuneration | | |
| — current year | 1,217 | 1,200 |
| — under provision in previous year | — | 235 |
| Cost of inventories | 418,716 | 394,417 |
| Depreciation of fixed assets | 2,210 | 2,188 |
| Impairment of investments in non-trading securities | 1,674 | — |
| Loss on disposal of fixed assets | 2 | 97 |
| Net exchange loss | — | 1,163 |
| Operating leases in respect of land and buildings | 2,674 | 1,932 |
| Provision for doubtful debts | — | 357 |
| Provision for advance to an associated company | 2,996 | — |
| Research and development costs | 159 | 146 |
| Retirement benefit costs (Note 10) | 653 | 502 |
| Staff costs (including directors' emoluments) | <u>31,659</u> | <u>27,023</u> |

4 Finance cost

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

5 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 PRC profits tax has been calculated at 33% on the estimated assessable profits of group companies operating in the PRC.

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

| | Group | |
|---------------------------------|--------------------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Hong Kong profits tax | — | — |
| Macau complementary profits tax | 10,274 | 14,429 |
| PRC profits tax | 283 | — |
| | 10,557 | 14,429 |

There was no material unprovided deferred taxation for the year (2001: Nil).

6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the company to the extent of HK\$15,992,000 (2001: HK\$12,922,000).

7 Dividends

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

Note:

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 30th June 2000 and 2001 were HK\$9,225,000 and HK\$12,160,000 respectively. Under the group's new accounting policy as described in note 1(r), these have been written back against opening reserves as at 1st July 2000 and 2001 in note 20 and are now charged in the periods in which they were declared.
- (b) At a meeting held on 16th September 2002 the directors declared a final dividend of HK\$0.005 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 30th June 2002.

8 Earnings per share

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

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

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

9 Directors' and senior management's emoluments

(a) Directors' emoluments

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

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---------------------------------|------------------|------------------|
| Fees | 819 | 890 |
| Other emoluments | | |
| — basic salaries and allowances | 6,823 | 7,094 |
| — bonuses | 6,200 | 8,000 |
| — pensions | 27 | 18 |
| | <u>13,869</u> | <u>16,002</u> |

Directors' fees disclosed above include HK\$240,000 (2001: HK\$240,000) paid to independent non-executive directors.

The executive directors received individual emoluments for the year ended 30th June 2002 of approximately HK\$7,441,000 (2001: HK\$8,394,000), HK\$2,551,000 (2001: HK\$2,665,000), HK\$1,661,000 (2001: HK\$1,839,000), HK\$1,381,000 (2001: HK\$1,558,000) and HK\$595,000 (2001: HK\$1,306,000) respectively.

No directors waived or agreed to waive any of their emoluments in respect of the years ended 30th June 2002 and 2001.

9 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 four directors (2001: five) whose emoluments are reflected in the analysis presented above. For the year ended 30th June 2002, the emoluments payable to the remaining one (2001: Nil) individual who was not a director is as follows:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits in kind | 561 | — |
| Bonuses | 395 | — |
| | <u>956</u> | <u>—</u> |

The emoluments fell within the following bands:

| Emolument bands | Number of individual | |
|---------------------|----------------------|----------|
| | 2002 | 2001 |
| Nil - HK\$1,000,000 | 1 | — |
| | <u>1</u> | <u>—</u> |

During the year ended 30th June 2002, 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.

10 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 the employees' basic salaries.

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

As at 30th June 2002, 75 (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 meets the circumstances required by the Decree, the group's maximum liabilities as at 30th June 2002 in this regard would be approximately HK\$9,987,000 (2001: HK\$5,598,000). No provision has been made for this amount in the accounts as it is not expected to be paid in the foreseeable future.

11 Fixed assets

| | Group | | | | Total HK\$'000 |
|---------------------------------|---------------------------------------|---|-------------------------------|--|-------------------|
| | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Demonstration equipment HK\$'000 | |
| Cost | | | | | |
| At 1st July 2001 | 2,616 | 5,285 | 1,488 | 1,349 | 10,738 |
| Exchange adjustments | — | 25 | 8 | — | 33 |
| Additions | 105 | 663 | 867 | 52 | 1,687 |
| Disposals | (77) | (201) | (30) | — | (308) |
| | <u>2,644</u> | <u>5,772</u> | <u>2,333</u> | <u>1,401</u> | <u>12,150</u> |
| At 30th June 2002 | <u>2,644</u> | <u>5,772</u> | <u>2,333</u> | <u>1,401</u> | <u>12,150</u> |
| Accumulated depreciation | | | | | |
| At 1st July 2001 | 1,707 | 3,473 | 533 | 1,292 | 7,005 |
| Exchange adjustments | — | 11 | 3 | — | 14 |
| Charge for the year | 517 | 1,346 | 279 | 68 | 2,210 |
| Disposals | (78) | (199) | (29) | — | (306) |
| | <u>2,146</u> | <u>4,631</u> | <u>786</u> | <u>1,360</u> | <u>8,923</u> |
| At 30th June 2002 | <u>2,146</u> | <u>4,631</u> | <u>786</u> | <u>1,360</u> | <u>8,923</u> |
| Net book value | | | | | |
| At 30th June 2002 | <u>498</u> | <u>1,141</u> | <u>1,547</u> | <u>41</u> | <u>3,227</u> |
| At 30th June 2001 | <u>909</u> | <u>1,812</u> | <u>955</u> | <u>57</u> | <u>3,733</u> |

12 Investments in subsidiaries - Company

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Investments, at cost (Note (a)) | 73,918 | 73,918 |
| Amounts due from subsidiaries (Note (b)) | 141,517 | 146,678 |
| Amount due to a subsidiary (Note (b)) | (1,508) | (1,498) |
| | 213,927 | 219,098 |

(a) The following is a list of the subsidiaries at 30th June 2002:

| 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 PRC | Design, sale and implementation of data networking systems and the provision of related engineering services/ the PRC | RMB3,000,000 | — | 54% |
| Guangzhou Information Communication Co., Ltd. ("GZIC") | The PRC | Provision of internet related data services/ the PRC | RMB900,000 | — | 28% (Note) |
| 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 | Investment holding/ the PRC | 1,000 ordinary shares of US\$1 each | — | 100% |
| Vodatel Data Limited | British Virgin Islands | Investment holding/ Hong Kong | 1,000 ordinary shares of US\$1 each | — | 100% |

12 Investments 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 Holdings Limited | British Virgin Islands | Investment holding and design, sale 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 | Investment holding/ Hong Kong | 1,000 ordinary shares of US\$1 each | — | 100% |

12 Investments 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 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% |
| Vodatel Systems Inc. | British Virgin Islands | Design, sale 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 trademarks/ Hong Kong | 1,000 ordinary shares of US\$1 each | — | 100% |

Note:

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.

13 Investments in associated companies

| | Group | |
|--|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Share of net assets (Note (a)) | 4,023 | 4,899 |
| Advances to associated companies (Note (b)) | 5,564 | 1,710 |
| | 9,587 | 6,609 |
| Less: provision for advance to an associated company (Note (b)) | (2,996) | — |
| | 6,591 | 6,609 |
| Unlisted shares, at cost | 33,107 | 33,107 |

13 Investments in associated companies (Continued)

(a) The following is a list of the associated companies at 30th June 2002:

| 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 and provision of software consultancy services | 100 ordinary shares of HK\$1 each | 40% |
| Guangzhou Thinker Vodatel Development Company Limited ("GZ Thinker") | The PRC | Wireless data communications and internet related products research and development | 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) Advances to associated companies are unsecured, interest-free and have no fixed terms of repayment.

Included in the advances to associated companies is an amount of HK\$2,568,000 advanced to GZ Thinker for a further acquisition of an 11% equity interest in GZ Thinker by the group for which approval is pending as at 30th June 2002. Subsequent to the year end, approval has been granted and GZ Thinker has become a subsidiary of the company. The remaining advance of HK\$2,996,000 was made to another associated company, which was fully provided for at the year end.

14 Non-trading securities

| | Group | |
|------------------------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Equity securities, at market value | | |
| Listed in Hong Kong | 10,320 | 10,770 |
| Listed outside Hong Kong | 1,092 | 3,135 |
| | 11,412 | 13,905 |
| Unlisted | 6,112 | 2,635 |
| Less: impairment charge | (1,674) | — |
| | 15,850 | 16,540 |
| Convertible notes, unlisted (Note) | 600 | — |
| | 16,450 | 16,540 |

Note:

The convertible notes bear interest at 1% per annum on the principal amount of the notes outstanding from time to time payable half yearly in arrears on 30th September and 31st March in each year. The company shall have the right to convert the whole (but not part) of the principal amount of the notes into fully-paid ordinary shares of the notes issuer or the substituted listing company at initial conversion price specified in the subscription agreement dated 28th March 2002.

15 Inventories

| | Group | |
|----------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Networking equipment | 114,141 | 88,072 |
| Less: provision | (3,329) | (1,942) |
| | 110,812 | 86,130 |

At 30th June 2002, there were no inventories (2001: Nil) carried at net realisable value.

16 Trade and bills receivables

At 30th June 2002, the ageing analysis of the trade and bills receivables were as follows:

| | Group | |
|-----------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| 0 - 3 months | 66,441 | 77,812 |
| 4 - 6 months | 48,797 | 29,038 |
| 7 - 12 months | 54,752 | 52,965 |
| Over 12 months | 43,309 | 58,932 |
| | 213,299 | 218,747 |
| Less: provision | (21,942) | (21,942) |
| | 191,357 | 196,805 |

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

17 Trade and bills payables

At 30th June 2002, the ageing analysis of the trade and bills payables were as follows:

| | Group | |
|----------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| 0 - 3 months | 52,680 | 69,923 |
| 4 - 6 months | 18,671 | 23,828 |
| 7 - 12 months | 1,407 | 39,553 |
| Over 12 months | 25,707 | 24,736 |
| | 98,465 | 158,040 |

18 Convertible bonds

| | 2002 | 2001 |
|-----------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Convertible bonds | 27,230 | — |
| Less: current portion | (17,505) | — |
| | 9,725 | — |

In February 2002, the company issued a total of US\$3,500,000 convertible bonds (“CB”) to a supplier of the group. The CB bear interest at 1.90875% per annum on the principal amount of the CB outstanding from time to time payable annually in arrears. The CB comprised of three tranches:

- (a) For CB1 of US\$1,500,000, the holder and the company shall each have the right, at the option of such holder or the company, at any time between 28th February 2002 and 28th February 2003 inclusive, convert CB1 into fully-paid shares of HK\$0.1 each of the company at a conversion price of HK\$2.0 per share, subject to adjustment.
- (b) For CB2 of US\$750,000, the holder shall have the right, at the option of such holder, at any time between 28th February 2002 and 28th February 2003 inclusive, convert CB2 into fully-paid shares of HK\$0.1 each of the company at a conversion price of HK\$2.0 per share, subject to adjustment.
- (c) For CB3 of US\$1,250,000, the holder shall have the right, at the option of such holder, at any time between 28th February 2002 and 28th February 2004 inclusive, convert CB3 into fully-paid shares of HK\$0.1 each of the company at a conversion price of HK\$2.0 per share, subject to adjustment.

Unless previously converted, the company shall redeem the CB at a value equal to the aggregate of (i) the principal amount outstanding under the CB; and (ii) all interest accrued thereon up to and including the date of actual payment on 28th February 2003 for CB1 and CB2 and on 28th February 2004 for CB3.

19 Share capital

| | Number of shares | HK\$'000 |
|--------------------------------------|----------------------|----------------|
| Authorised | | |
| Ordinary shares of HK\$0.10 each | | |
| At 30th June 2001 and 30th June 2002 | <u>2,000,000,000</u> | <u>200,000</u> |
| Issued and fully paid | | |
| Ordinary shares of HK\$0.10 each | | |
| At 30th June 2000 | 615,000,000 | 61,500 |
| Repurchase of shares | <u>(7,016,000)</u> | <u>(702)</u> |
| At 30th June 2001 and 30th June 2002 | <u>607,984,000</u> | <u>60,798</u> |

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 16th August 2000, share options to subscribe for 1,450,000 and 4,466,000 shares were granted to the directors of the company and certain employees of the group respectively. None of the share options granted have been exercised as at 30th June 2002.

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. None of the share options granted have been exercised as at 30th June 2002.

Details of the outstanding share options which have been granted to the directors of the company and certain employees of the group are as follows:

| Date of share options granted | Number of share options outstanding as at 1st July 2001 | Number of share options granted during the year | Number of share options lapsed during the year | Number of share options outstanding as at 30th June 2002 | Exercise period | Exercise price per share HK\$ |
|-------------------------------|---|---|--|--|---|-------------------------------|
| 16th August 2000 | 5,916,000 | — | (290,000) | 5,626,000 | 16th February 2001 - 15th February 2004 | 1.19 |
| 1st August 2001 | — | 13,466,000 | — | 13,466,000 | 1st February 2002 - 31st January 2005 | 0.79 |
| | <u>5,916,000</u> | <u>13,466,000</u> | <u>(290,000)</u> | <u>19,092,000</u> | | |

20 Reserves

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

20 Reserves (Continued)

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

Note:

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.

20 Reserves (Continued)

| | Company | | | | |
|---|------------------------------|--|--|----------------------------------|-------------------|
| | Share premium HK\$'000 | Contributed surplus HK\$'000 (Note (a)) | Capital redemption reserve HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
| At 1st July 2000 (as previously reported) | 92,364 | 73,718 | — | 3,075 | 169,157 |
| Effect of adopting SSAP 9 (revised) (Note 1(r)) | — | — | — | 9,225 | 9,225 |
| At 1st July 2000 (restated) | 92,364 | 73,718 | — | 12,300 | 178,382 |
| Repurchase of shares | (5,774) | — | 702 | (702) | (5,774) |
| Profit attributable to shareholders | — | — | — | 12,922 | 12,922 |
| 1999/2000 Final dividend paid | — | — | — | (9,225) | (9,225) |
| At 30th June 2001 | <u>86,590</u> | <u>73,718</u> | <u>702</u> | <u>15,295</u> | <u>176,305</u> |
| Representing: | | | | | |
| 2000/2001 Final dividend proposed | | | | | 12,160 |
| Reserves at 30th June 2001 | | | | | <u>164,145</u> |
| | | | | | <u>176,305</u> |

20 Reserves (Continued)

| | Company | | | | Total HK\$'000 |
|---|------------------------------|--|--|----------------------------------|-------------------|
| | Share premium HK\$'000 | Contributed surplus HK\$'000 (Note (a)) | Capital redemption reserve HK\$'000 | Retained earnings HK\$'000 | |
| At 1st July 2001 (as previously reported) | 86,590 | 73,718 | 702 | 3,135 | 164,145 |
| Effect of adopting SSAP 9 (revised) (Note 1(r)) | — | — | — | 12,160 | 12,160 |
| At 1st July 2001 (restated) | 86,590 | 73,718 | 702 | 15,295 | 176,305 |
| 2000/2001 Final dividend paid | — | — | — | (12,160) | (12,160) |
| Profit attributable to shareholders | — | — | — | 15,992 | 15,992 |
| 2001/2002 Interim dividend paid | — | — | — | (6,080) | (6,080) |
| At 30th June 2002 | <u>86,590</u> | <u>73,718</u> | <u>702</u> | <u>13,047</u> | <u>174,057</u> |
| Representing: | | | | | |
| 2001/2002 Final dividend proposed | | | | | 3,040 |
| Reserves at 30th June 2002 | | | | | <u>171,017</u> |
| | | | | | <u>174,057</u> |

Notes:

- (a) 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 (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) 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.
- (b) Distributable reserves of the company at 30th June 2002 amounted to HK\$86,765,000 (2001 (restated): HK\$89,013,000).

21 Notes to the consolidated cash flow statement

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

| | Group | |
|--|------------------------|--------------------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 (restated) |
| Profit before taxation | 69,312 | 68,565 |
| Share of losses of associated companies | 876 | 2,155 |
| Depreciation | 2,210 | 2,188 |
| Loss on disposal of fixed assets | 2 | 97 |
| Impairment of investments in non-trading securities | 1,674 | — |
| Impairment of goodwill (note 1(d)) | — | 26,668 |
| (Increase)/decrease in amount due from an associated company | (858) | 913 |
| Increase in inventories | (24,682) | (48,978) |
| Decrease in trade and bills receivables and other receivables, deposits and prepayments | 5,947 | 21,396 |
| (Decrease)/increase in trade and bills payables | (59,575) | 23,422 |
| Decrease in other payables and accruals | (10,877) | (30,060) |
| Decrease in amount due to directors | — | (1,797) |
| Interest expenses | 173 | — |
| Interest income | (3,588) | (11,087) |
| Dividend income | (649) | (686) |
| Exchange differences | 29 | — |
| Cash (outflow)/inflow from operating activities | <u>(20,006)</u> | <u>52,796</u> |

21 Notes to the consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

| | Share capital including share premium | | Pledged time deposits | | Convertible bonds | | Bank loan, secured | | Minority interests | |
|--|---------------------------------------|----------|-----------------------|----------|-------------------|----------|--------------------|----------|--------------------|----------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance at the beginning of the year | 147,388 | 153,864 | (2,137) | (2,808) | — | — | 204 | — | 764 | — |
| Repurchase of shares | — | (6,476) | — | — | — | — | — | — | — | — |
| Minority interests in share of profits and exchange reserves | — | — | — | — | — | — | — | — | 1,866 | 764 |
| Cash inflow/(outflow) from financing | — | — | 2,137 | 671 | 27,230 | — | (204) | — | — | — |
| Balance at the end of the year | 147,388 | 147,388 | — | (2,137) | 27,230 | — | — | 204 | 2,630 | 764 |

(c) Purchase of subsidiaries

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|------------------|------------------|
| Net assets acquired | | |
| Fixed assets | — | 608 |
| Other investments | — | — |
| 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 overdrafts | — | (70) |
| Loans and finance leases | — | (204) |
| Minority shareholders' interests | — | (764) |
| | — | 777 |
| Goodwill | — | 15,697 |
| Carrying value of interest in an associated company | — | (317) |
| | — | 16,157 |
| Satisfied by | | |
| Cash | — | 16,157 |

21 Notes to the consolidated cash flow statement (Continued)

(d) Analysis of the net outflow in respect of the purchase of subsidiaries

| | 2002 HK\$'000 | 2001 HK\$'000 |
|--|------------------|------------------|
| Cash consideration | — | 16,157 |
| Bank balances and cash in hand acquired | — | (5,169) |
| Bank overdrafts | — | 70 |
| Outstanding purchase consideration payable | — | (14,703) |
| | <hr/> | <hr/> |
| Net cash outflow in respect of the purchase of subsidiaries | — | (3,645) |
| | <hr/> <hr/> | <hr/> <hr/> |

22 Banking facilities

At 30th June 2002, the group's banking facilities of HK\$407,000,000 (2001: HK\$193,080,000) are secured by the following:

- (a) corporate guarantee given by certain subsidiaries amounting to HK\$327,000,000 (2001: HK\$147,200,000);
- (b) corporate guarantee given by the company amounting to HK\$407,000,000 (2001: HK\$193,080,000); and
- (c) cross corporate guarantees between the company and certain subsidiaries amounting to HK\$80,000,000 (2001: HK\$50,000,000).

Subsequent to 30th June 2002, banking facilities given by a bank have been revised from HK\$83,000,000 to HK\$50,000,000. Corporate guarantees given by the company and certain subsidiaries of the company amounting to HK\$83,000,000 respectively have been revised to HK\$50,000,000 each accordingly.

23 Bank loan, secured

| | 2002 HK\$'000 | 2001 HK\$'000 |
|-----------------------|------------------|------------------|
| Bank loan, secured | — | 204 |
| Less: current portion | — | (59) |
| | <u>—</u> | <u>145</u> |

The bank loan is wholly repayable within five years.

At 30th June 2002, the group's bank loans and overdrafts were repayable as follows:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|----------------------------|------------------|------------------|
| Within one year | — | 59 |
| In the second year | — | 65 |
| In the third to fifth year | — | 80 |
| | <u>—</u> | <u>204</u> |

24 Contingent liabilities

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

25 Commitments

(a) Capital commitments

| | 2002 HK\$'000 | 2001 HK\$'000 |
|-----------------------------------|--------------------------------|------------------|
| Contracted but not provided for | — | 51 |
| Authorised but not contracted for | 1,000 | 1,456 |
| | 1,000 | 1,507 |

(b) Operating lease commitments

At 30th June 2002, the group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---------------------------------------|--------------------------------|------------------|
| Within one year | 927 | 1,844 |
| In the second to fifth year inclusive | 445 | 740 |
| After the fifth year | 88 | 158 |
| | 1,460 | 2,742 |

26 Related party transactions

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

| | 2002 | 2001 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Business development fee payable to GVDL (Note (a)) | — | 1,393 |
| Sale of goods to Zetronic Comunicações Lda (Note (b)) | 289 | 869 |
| Rental charges payable to a director of the company (Note (c)) | 60 | 60 |
| Network service fee payable to an associated company, Crossland Business Solution Limited ("CBS") (Note (d)) | 400 | 825 |

- (a) 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. Since GVDL has become a subsidiary of the group on 15th June 2001, such service fee has been eliminated in the consolidated accounts for the year ended 30th June 2002.
- (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.

26 Related party transactions (Continued)

- (d) This represents 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.
- (e) At 30th June 2002, the group had unsecured advances to the following associated company:

| | 2002 | 2001 |
|---|---------------------|--------------|
| | HK\$'000 | HK\$'000 |
| Vodatel Crossland Technology Holdings Limited ("VCT") (Note) | <u>2,996</u> | <u>1,710</u> |

Note:

The advance to VCT is unsecured, interest-free and has no fixed terms of repayment. The other shareholder of VCT, a third party, has also advanced to VCT an amount exceeding the proportion of its share of equity interest in VCT. The group has fully provided for the advance to VCT as at 30th June 2002.

27 Approval of accounts

The accounts were approved by the board of directors on 16th September 2002

For the year ended 30th June

| | 2002 HK\$'000 | 2001 HK\$'000 (restated) | 2000 HK\$'000 (restated) | 1999 HK\$'000 | 1998 HK\$'000 |
|--|--------------------------------|--------------------------------|--------------------------------|------------------|------------------|
| Turnover | 601,108 | 546,915 | 482,267 | 478,420 | 416,151 |
| Profit attributable to shareholders | 56,992 | 54,136 | 78,185 | 71,229 | 49,857 |
| Total assets | 552,275 | 548,449 | 459,699 | 283,739 | 174,568 |
| Total liabilities | 223,239 | 255,638 | 215,040 | 233,744 | 138,818 |
| Net assets | 329,036 | 292,811 | 244,659 | 49,995 | 35,750 |

The turnover, profit attributable to shareholders, total assets and total liabilities of the group for each of the three 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 IS HEREBY GIVEN THAT the Third Annual General Meeting of Shareholders of the Company will be held at the Chatham Room, Level 7, Conrad Hong Kong, on Tuesday, 5th November 2002 at 11:00 a.m. for the following purposes:-

1. To receive and consider the audited financial statements and the reports of the directors of the Company ("Directors") and auditors for the year ended 30th June 2002.
2. To approve the payment of a final dividend for the year ended 30th June 2002.
3. To re-elect retiring Director.
4. To authorise the Board of Directors to fix Directors' remuneration.
5. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.
6. 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 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 by 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.

“Rights 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 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 on 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 laws and requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of the Stock Exchange or those of 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. 6A and 6B, the general mandate granted to the Directors to allot, issue and deal with additional securities pursuant to Resolution No. 6A 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. 6B, 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, 27th September 2002

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business:

No. 74 da Rua da Felicidade
Edf. Vodatel
Taipa, Macau

Place of Business in Hong Kong:

Room 1401, 14th Floor
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 2002 to 5th November 2002, 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, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not later than 4:00 p.m. on 31st October 2002.
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 Conuaght Road Central, Hong Kong, not less than 48 hours before the appointed time for holding the Meeting.
4. An Explanatory Statement containing further details regarding Ordinary Resolution No. 6B above as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange will be dispatched to the members of the Company together with the 2002 Annual Report.

ABBREVIATIONS

| | |
|-------------------|--|
| Alcatel | Alcatel Networks Corporation |
| ATM | Asynchronous Transfer Mode |
| CDMA | Code Division Multiple Access |
| DDN | Digital Data Network |
| DWDM | Dense Wavelength Division Multiplexing |
| Extreme | Extreme Networks, Inc. |
| Inktomi | Inktomi Corporation |
| IP | Internet Protocol |
| Juniper | Juniper Networks |
| LG | LG Information & Communications, Ltd. |
| LG TOPS | Guangzhou LG-TOPS Communication Technologies Co., Ltd. |
| Mirapoint | Mirapoint, Inc. |
| MTel | Mobile Telecom Network (Holdings) Limited |
| NETP | New Economy Trading Platform |
| Packeteer | Packeteer, Inc. |
| PDH | Plesiochronous Digital Hierarchy |
| PRC | People's Republic of China |
| Riverstone | Riverstone Networks, Inc. |
| SDH | Synchronous Digital Hierarchy |
| SONET | Synchronous Optical Network |
| Vodatel Crossland | Vodatel Crossland Technology Holdings Limited |
| WAN | Wide Area Network |
| WTO | World Trade Organisation |