



VODATEL



Annual Report
2003

GEM Disclaimer

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast 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.

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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

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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
DBS Bank (Hong Kong) Limited
HSH Nordbank AG
Industrial and Commercial Bank of China (Asia) Limited
Standard Chartered Bank

Share Registrars

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

COMPANY PROFILE

Founded in Macau, Vodatel is one of the leading network solutions providers in the PRC, specializing in DDN, Frame Relay, ATM and broadband IP technologies. With its nationwide geographical presence in the PRC, the Group provides fully integrated services ranging from network planning, design, installation and implementation to maintenance and after-sales technical support to public telecommunications service providers and enterprise customers in selected vertical markets, such as cable TV operators, electricity bureaus and governments.

In addition to introducing innovative technologies from international vendors to customers in the PRC and Macau, the Group has also been focusing on the development of its own applications, providing a spectrum of networking solutions to customers - from public data networks to applications riding over the data infrastructure.

Since its establishment in 1992, Vodatel has built up its long-term relationships with its premium customers, including public telecommunications service providers, governments and enterprises in the PRC and Macau markets.





CHAIRMAN'S STATEMENT

How can I best present our financial year 2002/03? A year, where despite the difficult and challenging market environment, we continued to deliver consolidated net profit to our shareholders - the eighth consecutive year of profit making on record. A year where we have made demographic shifts to become a regional player in the growing markets in the Asia Pacific Region. A year where we have made decisive moves to invest in our self-developed applications to enhance our potential for continuous growth.

José Manuel dos Santos
Chairman

Financial Results

Challenged by the restructuring and shake-ups in the telecommunications industry, which affected our bottom-line, on behalf of the Board, I am delighted to report to our shareholders that we have once again delivered a year of profitable results. For the fiscal year ended 30th June 2003, we recorded turnover of HK\$ 388.8 million with net profit of HK\$10.6 million. We are pleased to deliver a positive return on equity for our shareholders with net assets standing at HK\$0.55 per share.

We continued to maintain a strong balance sheet, with substantial working capital and a low debt level, which financially well positioned us to weather difficult market conditions and to allow us to aggressively, yet selectively, pursue business expansion and acquisition opportunities.

Dividend

The Board proposed a final dividend of 0.5 HK cent per share for the fiscal year ended 30th June 2003. Together with the interim dividend of 1.0 HK cent already declared and paid, total dividends per share for the fiscal year, match the level of the preceding fiscal year at 1.5 HK cents per share. We acknowledge that sharing the results of Vodatel with our shareholders is one way to show our appreciation to you for your long-term support for the Group.

The Board proposed a final dividend of 0.5 HK cent per share for the fiscal year ended 30th June 2003.

Adapting to Change

During the year, the telecommunications market in the PRC experienced dynamic and volatile changes as a result of the restructuring of the telecommunications industry. Coupled with the focus of the capital expenditure spending of our major customer, China Telecom, outside the business domain of the Group, our ability to anticipate and adapt to market changes has been put to the test. We are pleased that the combination of our market knowledge, local presence and technical expertise has sheltered us against material slippage. Although revenue and net profit for the fiscal year dipped, we were able to extend our geographical coverage to the provinces of Anhui and Heilongjiang, enabling Vodatel to set its footprints in 20 provinces, municipalities and autonomous regions in the PRC.

We have continued to strengthen our most valuable asset - a premium customer installation base comprising reputable customers with strong purchasing power, such as telecommunications service providers, cable TV operators and governments.



Investing in Growth

Vodatel has continued to identify opportunities to excel and drive our growth. During the year, in addition to realigning our sales and marketing resources to penetrate into new customer groups in the PRC, we have also capitalized on our deep roots in Macau to tap the many opportunities driven by the e-government projects of the Macau SAR Government, the opening up of the gaming industry and the upcoming 2005 East Asian Games.

We have also made our first move into the Asia Pacific Region, participating in a consortium, comprising Portugal Telecom and the East Timor Government, to exclusively operate and provide telecommunications services to citizens of East Timor.

Furthermore, we have enriched our product offerings and raised our marketability with self-developed products such as our Document Imaging System, Document Management System and Operation Support System. Both the Document Imaging System and the Document Management System are products of MegalInfo, which is currently in the process of seeking a separate listing on the Growth Enterprise Market of the Hong Kong Stock Exchange.

We are excited about our new moves, which we expect to bring us a good deal of new business while creating a positive impact on our profitability.

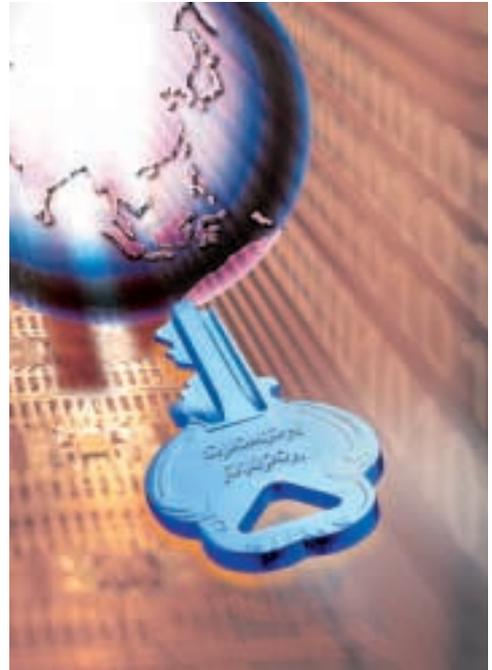


Strategic Progression

Our goal is to continue achieving sufficient scale in our focused businesses where we choose to compete.

We expect to continue excelling in our growth through the pursuit of our business expansion, with selective acquisitions that are consistent with our objectives, strategic fit and financial returns. Going forward, our focus for growth will point to the following directions:

- To consolidate our core business through the addition of quality customer groups and new markets in the Asia Pacific Region to become a major regional player;
- To become the destination of choice for networking solutions by strengthening our product portfolio with innovative carrier-class solutions from international vendors and our own self-developed applications, offering a spectrum of solutions to our customers from data networks to value-added applications riding over the data infrastructure; and
- To make inroads into the voice domain to further diversify into the telecommunications arena.



Appreciation

Finally, both the Board and I would like to take this opportunity to thank all our employees for their efforts, which continue to critically contribute to the Group's performance. We would also like to extend our gratitude to our customers. Your trust in us is appreciated and we will reaffirm our commitment to providing you with outstanding services - whatever the project and wherever it is located. Finally, we would like to thank you, our shareholders, for your on-going support and confidence.

José Manuel dos Santos
Chairman
Hong Kong, 29th September 2003



**MANAGEMENT
DISCUSSION &
ANALYSIS**

REVIEW OF BUSINESS ACTIVITIES

Our Performance in the PRC

The restructuring of the telecommunications industry, increasing market competition and pressure on net margins were key factors that ascribed to a challenging year for telecommunications players. However, despite a very difficult year, attributable to our premium customer base, we continued to secure recurring business from telecommunications service providers for the upgrade and expansion of their data networks. Major upgrade and expansion projects awarded to us during the year included the HK\$78.6 million contract from Guangdong China Telecom, the HK\$23.7 million contract from Liaoning China Telecom, the HK\$4.1 million contract from Jilin China Telecom and the HK\$19.2 million contract from Henan China Telecom. With the winning of the HK\$8.7 million contract from Anhui China Telecom and the HK\$4.8 million contract from Heilongjiang China Telecom, not only have we successfully extended our geographical reach from 18 to 20 provinces, municipalities and autonomous regions, but also strengthened our market coverage in the eastern and northeastern regions of the PRC.

During the year, we realigned our resources to actively penetrate into selected customer groups, such as alternate carriers, cable TV operators and governments. Capitalizing on our technical capabilities and on-the-ground experience, we once again achieved encouraging results and successfully secured an aggregate of HK\$11.0 million of contracts from new customers including Shanghai China Netcom, Guizhou Railcom, the Electricity Bureau of Yunnan, Shanxi CATV and the Educational Bureau of Anhui.



Macau – A Golden Opportunity

The Macau SAR Government's promotion of e-government, the opening up of the gaming industry and the upcoming 2005 East Asian Games have indisputably created robust activities in Macau. With a strong and established presence in Macau and technical competence, we have been actively pursuing these new business opportunities. In addition to being awarded the HK\$6.4 million electronic government infrastructure integration solution contract from the Macau SAR Government, we have successfully secured a handful of contracts, including a HK\$7.6 million contract from a major hotel to upgrade its voice, public address, access control, security, computer and networking systems and a HK\$3.1 million contract from a gaming operator to design, supply and install a structural cabling system at one of its prime sites.



Progression in the Asia Pacific Region

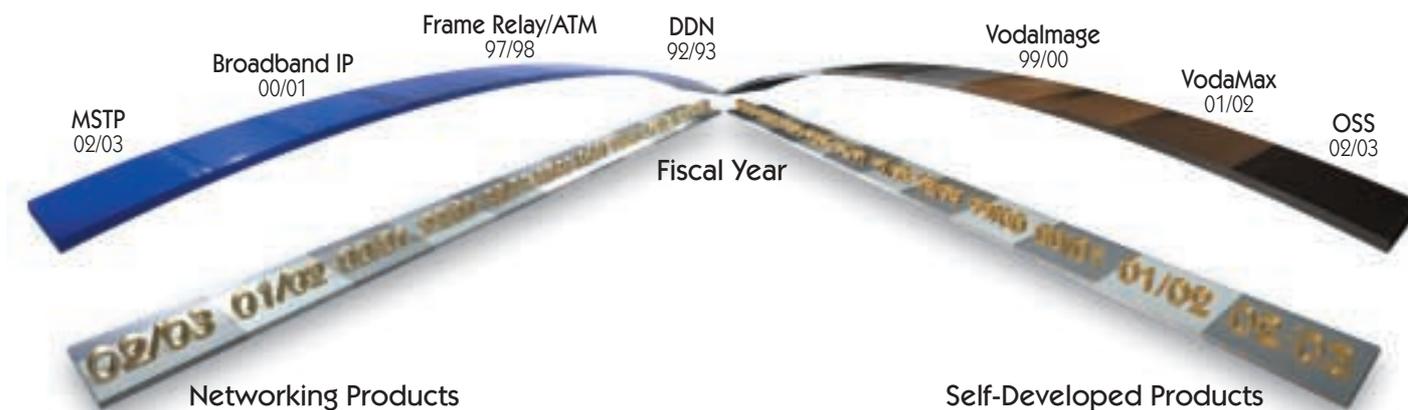
In addition to putting strong focus on Macau, we have also taken steps to become a market player in the Asia Pacific Region. During the year, we successfully penetrated into the Hong Kong market and took an 10.9% equity interest in a consortium, including Portugal Telecom and the East Timor Government as key partners, to exclusively operate and provide telecommunications services, ranging from fixed-line to mobile services, to citizens of East Timor.

We have also been actively seeking opportunities in selected countries in the Asia Pacific Region. Vietnam and Malaysia are currently the countries that we are exploring into.



Expanding Our Products Portfolio

We continued to identify innovative and value-added products from international vendors that fit the needs of our customers and our markets. In addition to represent products based on DDN, Frame Relay, ATM and broadband IP technologies, we have also taken up products based on the technology of MSTP. MSTP is a bandwidth management solution that provides aggregation, grooming and business services in metro/regional networks, allowing telecommunications service providers to realize the full potential of their networks and reduce network operating and life-cycle costs.



Investing in Our Own Products

Our goal is to become the destination of choice for networking solutions. Therefore, we continued to enrich our product portfolio with the Group's self-developed products, such as Vodalmage and VodaMax, both of which are image processing solutions that allow the capture of document images and images in motion respectively. In addition to the deployment of Vodalmage by Guangdong China Mobile, we have successfully promoted and sold Vodalmage to various customers in Macau, including a hospital and the Macau SAR Government. In June 2003, we have been awarded the HK\$6.4 million electronic government infrastructure integration solution contract from the Macau SAR Government, with Vodalmage being deployed to facilitate information flow and enhance operational efficiencies and service delivery to the public.

We have also formed a partnership in Shanghai to engage in the research, design, development, integration, marketing and sales of OSS. OSS will allow telecommunications service providers to better manage their data networks, monitor service levels offered to customers and improve customer-relations management system, billing functionality and basic provisioning. The development of OSS has been completed and in September 2003, we have successfully promoted and secured our first contract from Guangdong China Telecom to implement OSS.

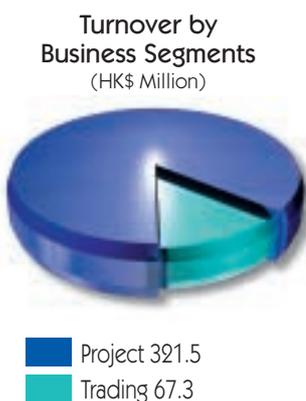
REVIEW OF OPERATING RESULTS

Turnover and Profitability

Attributable to the restructuring of the telecommunications industry and the shift of capital expenditures of our major customer, China Telecom, outside the domain of the Group, turnover of the Group amounted to HK\$388.8 million for the financial year ended 30th June, 2003, representing a decrease of 35.3% over the preceding year. Turnover from project sales, which involved the design and implementation of data networking systems and the provision of related engineering services, and trading sales amounted to HK\$321.5 million and HK\$67.3 million respectively.

As a result of increasing market competition, which put pressure on net margins, gross margin of project sales decreased from 24.6% to 20.6%. Although gross margin of trading sales leveled at approximately 31%, overall gross margin declined from the preceding year of 25.3% to 22.3%.

While selling expenses decreased in line with lower turnover from HK\$13.5 million to HK\$8.8 million, attributable to the Group's cost structure, which comprised primarily of staff costs and operating expenses to support our offices in the PRC, administrative expenses declined slightly from HK\$72.6 million to HK\$68.1 million. Lower turnover and gross margins resulted in net profit for the year decreasing from HK\$57.0 million to HK\$10.6 million. Shareholders' funds reached HK\$340.5 million with net assets of HK\$0.55 per share.



Capital Structure, Liquidity and Financial Resources

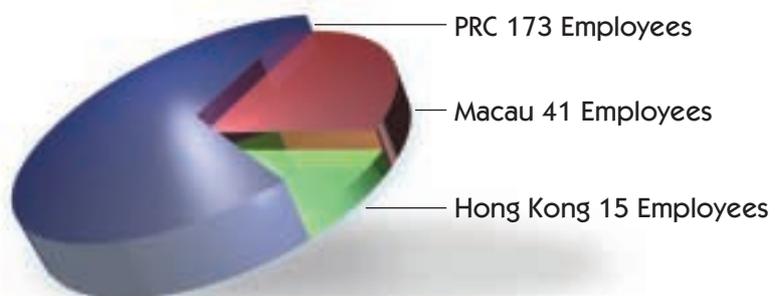
The Group continued to maintain a healthy financial and capital structure with minimal bank borrowings. During the year, we exercised our option to convert US\$1.5 million of the convertible bonds issued to Riverstone into listed shares of Vodatel at an exercise price of HK\$2.00 by creating 5,835,000 new shares of Vodatel and retired US\$0.75 million of the convertible bonds. As at 30th June 2003, outstanding debt on our books included US\$1.25 million (HK\$9.7 million) of the 1.90875% convertible bonds issued to Riverstone, maturing on 28th February 2004, and RMB10.0 million of short-term loans raised to facilitate the operating activities of our subsidiary in the PRC. The gearing ratio (total borrowings / shareholders' funds) of the Group stood at a comfortable level of 5.6%.

The Group continued to maintain strong liquidity position with cash and bank deposits amounted to HK\$163.6 million, translating to cash of HK\$0.27 per share. Cash from settlement of receivables have been offset by payments made against payables and inventories, with the increase of inventory level to support approximately HK\$70.0 million of confirmed orders.

Employees' Information

As at 30th June 2003, the Group had 229 employees of which 41, 15 and 173 employees were based in Macau, Hong Kong and the PRC respectively. Employee costs, excluding Directors' emoluments, totaled HK\$19.0 million. At the Group's discretion, employees may receive bonuses based on their performance.

During the year, the Group cancelled its old share option scheme and all options previously granted under the old scheme. A new share option scheme has been adopted and 17,138,000 share options under the new scheme have been issued to directors, executives and employees of the Group.





Mr. KUAN Kin Man

Ms. Monica Maria NUNES

Mr. José Manuel dos SANTOS

Mr. LO King Chiu, Charles

Mr. CHUI Sai Cheong

Mr. YIM Hong

(from left to right)



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. José Manuel dos SANTOS, aged 55, is the founder of the Group and the Chairman of the Company. He has over 30 years' experience in the telecommunications industry in the Asia Pacific region. He served in a senior position at Direcção dos Serviços de Correios e Telecomunicações, the telecommunications authority of Macau, prior to the founding of Zetronic and subsequently the Group.

Mr. YIM Hong, aged 45, is the Managing Director of the Group in charge of overall operations. He graduated from the University of London, the United Kingdom with a Bachelor of Science degree. With more than 20 years' experience in the IT industry, he joined the Group in 1998. Prior to joining the Group, Mr. Yim was the Area Business Director at Newbridge and the Country Manager at 3Com Corporation.

Mr. KUAN Kin Man, aged 38, is a Director and the General Manager of the Group in charge of sales and marketing. In 1985, he joined Zetronic as an engineer and was transferred into marketing later. With the establishment of the Group in 1992, Mr. Kuan joined the Group in the same year to assume the role of sales manager and was promoted to general manager in 1994.

Ms. Monica Maria NUNES, aged 34, 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 49, 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 59, 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 a Committee Member of the Chinese People Political Consultative Conference, Jiangxi Province. He 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 34, 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 41, 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 55, 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 38, is the Business Development Manager of the Group. He graduated from the University of Macau and Macau Management Association with a Diploma in Business Administration and from the West Coast Institute of Management and Technology in Australia with a Master Degree in Business Administration – International Business. He joined the Group in 2000 and in January 2003, he was appointed as an executive director and marketing director of Megainfo, a subsidiary of the Company.

Mr. NG Ka Leung, aged 34, 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 39, 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 32, 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 35, 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. TSUI Wai Ming Maurice, aged 43, is the Country Director of the Group responsible for managing the sales operation in the PRC. He graduated from the Imperial College of Science and Technology in London, U.K. with a Bachelor of Science degree in aeronautical engineering and a Master of Science degree in structural mechanics. Prior to his joining the Group in May 2003, he was the Director of Business Development and Product Support of Alcatel China Investment Co. Ltd.

Mr. WANG Hai Tao, 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 China Telecom before joining the Group.

Mr. WANG Qing, aged 33, 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 54, 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 for more than 10 years responsible for the operation and marketing of voice telecommunications business.

Mr. WONG Wai Kan, aged 39, 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. ZENG Qing Shi, aged 33, 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.

Dr. ZHONG Min, aged 41, is the Regional Business Manager for the Group. He obtained his Bachelor of Science degree, Master of Science degree and Ph.D. from South Metallurgy College, Chongqing University and Tsinghua University respectively. He joined the group in 1998. Dr. Zhong was a university vice-professor and worked in Macau as the Corporate Representative and General Manager for a Tsinghua company headquartered in Macau.





REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 30th June 2003.

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 14 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 32.

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 Group and the Company during the year are set out in note 23 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$60,000.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 22 to the accounts.

Convertible bonds

Details of the convertible bonds issued by the Group during the year are set out in note 21 to the accounts.



REPORT OF THE DIRECTORS

Distributable reserves

Distributable reserves of the Company at 30th June 2003, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$89,920,000 (2002: HK\$86,765,000).

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 80.

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. Chui Sai Cheong
- * Mr. Lo King Chiu, Charles

* Independent non-executive directors

In accordance with Article 87 of the Company's bye-laws, Mr. Lo King Chiu, Charles 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 has entered into a service agreement with the Company for a term of eighteen months 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 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, or such higher percentage as approved by shareholders of the Company.

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 pages 14 to 18.



REPORT OF THE DIRECTORS

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 purchasers 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-sale services to such third-party purchasers on behalf of VNL. On 9th February 2003, the contract expired and was renewed until 9th August 2004.

On 2nd June 2003, the 46% interests in GVDL held by Mr. José Manuel dos Santos were disposed of to an independent third party for a consideration of RMB1.38 million (equivalent to approximately HK\$1.29 million).

- (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 Group leased its Macau office premise from Mr. José Manuel dos Santos at a monthly rental of approximately HK\$5,000 commencing from 1st October 1999 up to 2nd August 2002 and HK\$38,000 commencing from 16th September 2002. In addition, the Group also leased its Guangzhou office premise from Mr. José Manuel dos Santos at a monthly rental of approximately HK\$26,000 commencing from 1st February 2002.

The directors are of the opinion that the transactions as described in (a) to (c) 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 2003, the amount due from VCT to the Group was HK\$3,164,159. 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 2003.

Directors’ interests in equity or debt securities

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

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

Notes:

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



REPORT OF THE DIRECTORS

Directors' interests in equity or debt securities (Continued)

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

Substantial shareholders' interests and short positions in the shares, underlying shares of the Company

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

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

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

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

Share options

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

Share options (Continued)

On 30th June 2003, 17,178,000 share options under the old scheme were cancelled and 17,138,000 share options were granted under the Scheme 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) Qualifying 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 2003 is 61,381,900, representing 10% of the issued share capital of the Company as at 30th June 2003.

(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 30% of the aggregate number of shares for the time being issued and issuable under the Scheme.

(e) Options exercisable period

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

(f) Payment on acceptance of option

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

(g) Basis of determining the exercise price

The exercise price shall be at least the higher of (i) the closing price of shares on the SEHK as stated in the SEHK'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 SEHK'S daily quotation sheets for the 5 business days immediately preceding the Offer Date.

REPORT OF THE DIRECTORS

Share options (Continued)

(h) Remaining life of the Scheme

The Scheme will remain valid until 4th November 2012.

Details of the share options outstanding as at 30th June 2003 which have been granted under the Scheme are as follows:

Name or category of participant	Options held at 1st July 2002	Options granted during the year	Options lapsed during the year	Options cancelled during the year	Options held at 30th June 2003	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
Directors									
Mr. José Manuel dos Santos	290,000	—	—	(290,000)	—	1.19	16th August 2000	16th February 2001	15th February 2004
	592,000	—	—	(592,000)	—	0.79	1st August 2001	1st February 2002	31st January 2005
	—	600,000	—	—	600,000	0.42 ⁽ⁱ⁾	30th June 2003	30th June 2003	29th June 2006
Mr. Yim Hong	290,000	—	—	(290,000)	—	1.19	16th August 2000	16th February 2001	15th February 2004
	592,000	—	—	(592,000)	—	0.79	1st August 2001	1st February 2002	31st January 2005
	—	900,000	—	—	900,000	0.42 ⁽ⁱ⁾	30th June 2003	30th June 2003	29th June 2006
Mr. Kuan Kin Man	290,000	—	—	(290,000)	—	1.19	16th August 2000	16th February 2001	15th February 2004
	592,000	—	—	(592,000)	—	0.79	1st August 2001	1st February 2002	31st January 2005
	—	900,000	—	—	900,000	0.42 ⁽ⁱ⁾	30th June 2003	30th June 2003	29th June 2006
Ms. Monica Maria Nunes	290,000	—	—	(290,000)	—	1.19	16th August 2000	16th February 2001	15th February 2004
	592,000	—	—	(592,000)	—	0.79	1st August 2001	1st February 2002	31st January 2005
	—	900,000	—	—	900,000	0.42 ⁽ⁱ⁾	30th June 2003	30th June 2003	29th June 2006
Sub-total for directors	3,248,000	3,300,000	—	(3,248,000)	3,300,000				
Continuous contract employees	4,466,000	—	(514,000)	(3,952,000)	—	1.19	16th August 2000	16th February 2001	15th February 2004
	11,378,000	—	(1,400,000)	(9,978,000)	—	0.79	1st August 2001	1st February 2002	31st January 2005
	—	13,838,000	—	—	13,838,000	0.42 ⁽ⁱ⁾	30th June 2003	30th June 2003	29th June 2006
Sub-total for continuous contract employees	15,844,000	13,838,000	(1,914,000)	(13,930,000)	13,838,000				
Total	19,092,000	17,138,000	(1,914,000)	(17,178,000)	17,138,000				

Note:

- (i) At the date before the options of exercise price of HK\$0.42 were granted, which was 27th June 2003, the market value per share was HK\$0.41.

Share options (Continued)

In assessing the value of the share options granted during the year ended 30th June 2003, 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 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 30th June 2003
Expected life	3 years
Risk-free rate	1.83%
Expected volatility	68.21%
Expected dividend yield	3.61%

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.

REPORT OF THE DIRECTORS

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\$2,913,460 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	30th June 2003	600,000	0.17	102,000
Mr. Yim Hong	30th June 2003	900,000	0.17	153,000
Mr. Kuan Kin Man	30th June 2003	900,000	0.17	153,000
Ms. Monica Maria Nunes	30th June 2003	900,000	0.17	153,000
Other employees	30th June 2003	13,838,000	0.17	2,352,460
			Total	<u>2,913,460</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.

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.

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	64%
- five largest suppliers combined	93%
Sales	
- the largest customer	21%
- five largest customers combined	49%

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.

Bank loans, convertible bonds and other borrowings

An analysis of bank loans at 30th June 2003 is set out in management discussion and analysis. Details of convertible bonds are set out in note 21 to the accounts.

Apart from the above, the Group has no other borrowings at 30th June 2003.

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.

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.



REPORT OF THE DIRECTORS

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 includes 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, 22nd September 2003



AUDITORS' REPORT

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 32 to 79 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 solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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, 22nd September 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30th June 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	2	388,794	601,108
Cost of sales		(301,986)	(448,860)
Gross profit		86,808	152,248
Other revenues	2	5,886	4,237
Selling expenses		(8,773)	(13,539)
Administrative expenses		(68,108)	(72,585)
Operating profit	3	15,813	70,361
Finance cost	4	(635)	(173)
Share of losses of associated companies		(2,488)	(876)
Profit before taxation		12,690	69,312
Taxation	5	(2,658)	(10,557)
Profit after taxation		10,032	58,755
Minority interests		562	(1,763)
Profit attributable to shareholders	6	10,594	56,992
Dividends	7	9,207	9,120
Basic earnings per share	8	1.74 cents	9.37 cents
Fully diluted earnings per share	8	1.74 cents	9.33 cents

CONSOLIDATED BALANCE SHEET

As at 30th June 2003

	Note	2003 HK\$'000	2002 HK\$'000
Intangible assets	12	1,302	—
Fixed assets	13	6,666	3,227
Investments in associated companies	15	5,257	6,591
Deposit on acquisition of subsidiaries	16	8,227	—
Non-trading securities	17	11,668	16,450
Current assets			
Inventories	18	139,573	110,812
Trade and bills receivables	19, 26	138,048	191,357
Other receivables, deposits and prepayments		17,495	10,478
Bank balances and cash		163,586	213,360
		458,702	526,007
Current liabilities			
Trade and bills payables	20	49,139	98,465
Other payables and accruals		24,215	43,651
Convertible bonds	21	9,725	17,505
Taxation payable		52,728	51,263
Short-term bank loans, unsecured		9,346	—
		145,153	210,884
Net current assets		313,549	315,123
Total assets less current liabilities		346,669	341,391
Financed by:			
Share capital	22	61,382	60,798
Reserves	23	276,003	265,198
Proposed dividends	23	3,069	3,040
Shareholders' funds		340,454	329,036
Minority interests		6,215	2,630
Convertible bonds	21	—	9,725
		346,669	341,391

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

BALANCE SHEET

As at 30th June 2003

	Note	2003 HK\$'000	2002 HK\$'000
Investments in subsidiaries	14	172,585	213,927
Current assets			
Dividends receivable		80,000	55,000
Interest receivable		70	—
Bank balances and cash		8,965	733
		89,035	55,733
Current liabilities			
Other payables and accruals		2,215	7,575
Convertible bonds	21	9,725	17,505
		11,940	25,080
Net current assets		77,095	30,653
Total assets less current liabilities		249,680	244,580
Financed by:			
Share capital	22	61,382	60,798
Reserves	23	185,229	171,017
Proposed dividends	23	3,069	3,040
Shareholders' funds		249,680	234,855
Convertible bonds	21	—	9,725
		249,680	244,580

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June 2003

	Note	2003 HK\$'000	2002 HK\$'000
Cash outflow from operating activities	24(a)	(37,153)	(20,006)
Interest received		1,851	3,588
Interest paid		(635)	(173)
Dividends received from investments		650	649
Dividends paid		(9,178)	(18,240)
Taxation paid		(1,195)	(1,326)
Net cash outflow from operating activities		(45,660)	(35,508)
Cash flows from investing activities			
Purchase of fixed assets		(5,767)	(1,687)
Purchase of a subsidiary, net of cash acquired	24(b), 24(c)	2,200	—
Purchase of additional interest in a subsidiary		(216)	—
Purchase of non-trading securities		(4,732)	(4,056)
Sale of non-trading securities		9,117	—
Deposit on acquisition of subsidiaries		(8,227)	—
Net cash outflow from investing activities		(7,625)	(5,743)
Cash flows from financing activities			
Decrease in time deposits pledged for banking facilities		—	2,137
Inception/(repayment) of a bank loan		9,346	(204)
(Redemption)/proceeds from issuance of convertible bonds		(5,835)	27,230
Net cash inflow from financing		3,511	29,163
Decrease in cash and cash equivalents		(49,774)	(12,088)
Cash and cash equivalents at the beginning of the year		213,360	225,448
Cash and cash equivalents at the end of the year		163,586	213,360
Analysis of balances of cash and cash equivalents			
Bank balances and cash		163,586	213,360

STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June 2003

	Group	
	2003 HK\$'000	2002 HK\$'000
Total equity balance at the beginning of the year (as previously reported)	329,036	280,651
Effect of adopting SSAP 9 (revised)	—	12,160
Total equity balance at the beginning of the year (restated for 2002)	329,036	292,811
Issue of shares	584	—
Share premium on issuance of shares	11,086	—
Surplus/(deficit) on revaluation of non-trading securities	114	(2,517)
Reserve transferred to profit and loss account upon disposal of a non-trading security	(1,900)	—
Exchange differences arising on translation of accounts of overseas subsidiaries and an associated company	118	(10)
Net gains and losses not recognised in the consolidated profit and loss account	10,002	(2,527)
	339,038	290,284
Profit attributable to shareholders	10,594	56,992
2000/2001 Final dividends paid	—	(12,160)
2001/2002 Interim dividends paid	—	(6,080)
2001/2002 Final dividends paid	(3,040)	—
2002/2003 Interim dividends paid	(6,138)	—
Total equity balance at the end of the year	340,454	329,036

STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June 2003

	Company	
	2003 HK\$'000	2002 HK\$'000
Total equity balance at the beginning of the year (as previously reported)	234,855	224,943
Effect of adopting SSAP 9 (revised)	—	12,160
Total equity balance at the beginning of the year (restated for 2002)	234,855	237,103
Issue of shares	584	—
Share premium on issuance of shares	11,086	—
Net gains not recognised in the profit and loss account	11,670	—
	246,525	237,103
Profit attributable to shareholders	12,333	15,992
2000/2001 Final dividends paid	—	(12,160)
2001/2002 Interim dividends paid	—	(6,080)
2001/2002 Final dividends paid	(3,040)	—
2002/2003 Interim dividends paid	(6,138)	—
Total equity balance at the end of the year	249,680	234,855



NOTES TO THE ACCOUNTS

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 Statement of Standard Accounting Practice ("SSAP") No. 34 (revised) "Employee benefits" issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002. The adoption of SSAP No. 34 (revised) had no material impact on the preparation of the accounts.

(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.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings 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.

1 Principal accounting policies (Continued)

(b) Consolidation (Continued)

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

(c) Associated companies

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

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

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 and associated company at the date of acquisition.

Goodwill on acquisitions on or after 1st July 2002 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 2002 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.



NOTES TO THE ACCOUNTS

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.

When there is objective evidence that individual investments are impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

(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

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.



NOTES TO THE ACCOUNTS

1 Principal accounting policies (Continued)

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group participates in defined contribution plans which are available to all qualified employees, the assets of which are held in separate trustee administered funds. The pension plans are funded by payments from employees and by the relevant group companies. Contributions to the schemes by the Group are charged to the profit and loss accounts as incurred.

(iii) Bonus

Provisions for bonus due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligations as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(m) 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.

1 Principal accounting policies (Continued)

(n) 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.

(o) 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.

Commission income is recognised on an accruals basis.

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

(p) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. 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. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.



NOTES TO THE ACCOUNTS

1 Principal accounting policies (Continued)

(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 non-trading securities, additions to fixed assets (Note 13), including net additions resulting from acquisitions through purchases of a subsidiary.

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

2 Turnover, revenues and segment information

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Turnover		
Design, sale and implementation of data networking systems and provision of related engineering services	321,453	521,582
Sale of goods	67,341	79,526
	388,794	601,108
Other revenues		
Dividend income	650	649
Interest income	1,851	3,588
Gain on disposal of a non-trading security	2,717	—
Commission income	668	—
	5,886	4,237
Total revenues	394,680	605,345

NOTES TO THE ACCOUNTS

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 2003 HK\$'000	Sale of goods 2003 HK\$'000	Group 2003 HK\$'000
Turnover	321,453	67,341	388,794
Segment results	21,156	7,252	28,408
Unallocated income			5,886
Unallocated cost			(18,481)
Operating profit			15,813
Finance cost			(635)
Share of losses of associated companies			(2,488)
Profit before taxation			12,690
Taxation			(2,658)
Profit after taxation			10,032
Minority interests			562
Profit attributable to shareholders			10,594
Segment assets	239,530	38,091	277,621
Investments in associated companies			5,257
Unallocated assets			208,944
Total assets			491,822
Segment liabilities	27,705	21,434	49,139
Unallocated liabilities			102,229
Total liabilities			151,368
Unallocated capital expenditure			10,682
Unallocated depreciation			2,503
Unallocated impairment charge			2,168
Other non-cash expenses	8,921	1,315	10,236
Unallocated non-cash expenses			176

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 2002 HK\$'000	Sale of goods 2002 HK\$'000	Group 2002 HK\$'000
Turnover	<u>521,582</u>	<u>79,526</u>	<u>601,108</u>
Segment results	<u>69,994</u>	<u>15,931</u>	85,925
Unallocated income			4,237
Unallocated costs			<u>(19,801)</u>
Operating profit			70,361
Finance cost			(173)
Share of losses of associated companies			<u>(876)</u>
Profit before taxation			69,312
Taxation			<u>(10,557)</u>
Profit after taxation			58,755
Minority interests			<u>(1,763)</u>
Profit attributable to shareholders			<u>56,992</u>
Segment assets	275,777	26,392	302,169
Investments in associated companies			6,591
Unallocated assets			<u>243,515</u>
Total assets			<u>552,275</u>
Segment liabilities	86,733	11,732	98,465
Unallocated liabilities			<u>124,774</u>
Total liabilities			<u>223,239</u>
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			<u>2,998</u>

NOTES TO THE ACCOUNTS

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 the provision of related engineering services, and sales of goods in two main geographical areas, namely the People's Republic of China (the "PRC"), and Macau and Hong Kong. The PRC, for the purpose of these accounts, excludes Macau and Hong Kong.

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

	Turnover 2003 HK\$'000	Segment result 2003 HK\$'000	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
The PRC	334,641	27,863	155,854	—
Macau and Hong Kong	54,153	545	121,767	—
	<u>388,794</u>	<u>28,408</u>	<u>277,621</u>	—
Unallocated income		5,886		
Unallocated cost		(18,481)		
Operating profit		<u>15,813</u>		
Investments in associated companies			5,257	
Unallocated assets			<u>208,944</u>	
Total assets			<u>491,822</u>	
Unallocated capital expenditure				<u>10,682</u>

2 Turnover, revenues and segment information (Continued)
Secondary reporting format - geographical segment (Continued)

	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 and Hong Kong	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>

NOTES TO THE ACCOUNTS

3 Operating profit

Operating profit is stated after crediting and charging the following:

	Group	
	2003 HK\$'000	2002 HK\$'000
Crediting		
Net exchange gain	—	1,654
Realised gain on disposal of a non-trading security	2,717	—
Charging		
Amortisation of goodwill	145	—
Auditors' remuneration	1,217	1,217
Cost of inventories sold	272,614	418,716
Depreciation of fixed assets	2,503	2,210
Directors' and senior management's emoluments (Note 9)	8,233	13,869
Impairment of goodwill	840	—
Impairment of a non-trading security	1,328	1,674
Loss on disposal of fixed assets	8	2
Net exchange loss	224	—
Operating leases in respect of land and buildings	2,792	2,674
Pension costs (defined contribution plans) and social security costs (Note 11)	861	653
Provision for advance to an associated company	168	2,996
Research and development costs	116	159
Staff costs (excluding directors' emoluments) (Note 10)	18,977	17,790
Write-down of inventories to net realisable value	10,236	141

4 Finance cost

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on convertible bonds	635	173

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	
	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax	—	—
Macau complementary profits tax	2,392	10,274
PRC profits tax	266	283
	2,658	10,557

There was no material unprovided deferred taxation for the year (2002: 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\$12,333,000 (2002: HK\$15,992,000).

NOTES TO THE ACCOUNTS

7 Dividends

	2003 HK\$'000	2002 HK\$'000
Interim, paid for 2002/2003, of HK\$0.01 (2001/2002: HK\$0.01) per ordinary share	6,138	6,080
Final, proposed for 2002/2003, of HK\$0.005 (2001/2002: HK\$0.005) per ordinary share	3,069	3,040
	9,207	9,120

Note:

At a meeting held on 22nd September 2003 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 2003.

8 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$10,594,000 (2002: HK\$56,992,000) and the weighted average of shares 609,966,301 (2002: 607,984,000 shares) in issue during the year.

The calculation of fully diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$10,594,000 (2002: adjusted profit of HK\$57,137,753) on the assumption that all share options outstanding had been converted (all convertible bonds have been excluded as having anti-dilutive effect) and the weighted average of 609,969,068 (2002: 612,211,940) shares issued and issuable. Last year's weighted average shares included all convertible bonds then in issue and all share options outstanding, except for share options having anti-dilutive effect, had been converted and last year's adjusted profit was adjusted for the saving of finance costs in respect of convertible bonds.

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:

	2003 HK\$'000	2002 HK\$'000
Fees	760	819
Other emoluments		
— basic salaries and allowances	6,449	6,823
— bonuses	1,000	6,200
— pensions	24	27
	8,233	13,869

Directors' fees disclosed above include HK\$240,000 (2002: HK\$240,000) paid to independent non-executive directors.

The executive directors received individual emoluments for the year ended 30th June 2003 of approximately HK\$4,133,000 (2002: HK\$7,441,000), HK\$1,994,000 (2002: HK\$2,551,000), HK\$1,081,000 (2002: HK\$1,661,000), HK\$785,000 (2002: HK\$1,381,000) and HK\$Nil (2002: HK\$595,000) respectively.

No directors waived or agreed to waive any of their emoluments in respect of the years ended 30th June 2003 and 2002.

NOTES TO THE ACCOUNTS

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 (2002: four) whose emoluments are reflected in the analysis presented above. For the year ended 30th June 2003, the emoluments payable to the remaining one (2002: one) individual who was not a director is as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	558	561
Bonuses and commissions	515	395
	<u>1,073</u>	<u>956</u>

The emoluments fell within the following bands:

Emolument bands	Number of individual	
	2003	2002
Nil - HK\$1,000,000	—	1
HK\$1,000,000 - HK\$1,500,000	1	—
	<u>1</u>	<u>1</u>

During the year ended 30th June 2003, 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 Staff costs

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	18,494	17,790
Unutilised annual leave	262	—
Termination benefits	221	—
	18,977	17,790

11 Pension costs (defined contribution plans) and social security costs

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.

The Group contributes to a social security fund established by the Macau government for its employees in Macau.

As at 30th June 2003 and 30th June 2002, 73 and 75 employees respectively based in Macau had completed the required number of years of service under the Macau Employment Relationship Decree ("Decree") and are eligible for redundancy 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 2003 and 30th June 2002 in this regard would be approximately HK\$10,211,000 and HK\$9,987,000. No provision has been made for this amount in the accounts as the Group does not anticipate to terminate any employees in the foreseeable future.

NOTES TO THE ACCOUNTS

12 Intangible assets

	Group	
	2003 HK\$'000	2002 HK\$'000
Goodwill		
Opening net book amount	—	—
Acquisition of a subsidiary (Note 24 (b))	1,447	—
Purchase of additional interest in a subsidiary	280	—
Acquisition of an associated company	560	—
Impairment charge	(840)	—
Amortisation charge	(145)	—
Closing net book amount	1,302	—
At 30 th June 2003		
Cost	2,287	—
Accumulated amortisation and impairment losses	(985)	—
Net book value	1,302	—

13 Fixed assets

	Group				Total HK\$'000
	Leasehold improvements HK\$'000	Furniture, fixture and equipment HK\$'000	Motor vehicles HK\$'000	Demonstration equipment HK\$'000	
Cost					
At 1st July 2002	2,644	5,772	2,333	1,401	12,150
Additions	1,255	4,512	—	—	5,767
Acquisition of a subsidiary	—	299	—	—	299
Disposals	—	(130)	—	—	(130)
	<u>3,899</u>	<u>10,453</u>	<u>2,333</u>	<u>1,401</u>	<u>18,086</u>
At 30th June 2003	3,899	10,453	2,333	1,401	18,086
Accumulated depreciation					
At 1st July 2002	2,146	4,631	786	1,360	8,923
Charge for the year	496	1,581	403	23	2,503
Acquisition of a subsidiary	—	116	—	—	116
Disposals	—	(122)	—	—	(122)
	<u>2,642</u>	<u>6,206</u>	<u>1,189</u>	<u>1,383</u>	<u>11,420</u>
At 30th June 2003	2,642	6,206	1,189	1,383	11,420
Net book value					
At 30th June 2003	<u>1,257</u>	<u>4,247</u>	<u>1,144</u>	<u>18</u>	<u>6,666</u>
At 30th June 2002	<u>498</u>	<u>1,141</u>	<u>1,547</u>	<u>41</u>	<u>3,227</u>

NOTES TO THE ACCOUNTS

14 Investments in subsidiaries - Company

	2003 HK\$'000	2002 HK\$'000
Investments, at cost (Note (a))	73,918	73,918
Amounts due from subsidiaries (Note (b))	100,187	141,517
Amount due to a subsidiary (Note (b))	(1,520)	(1,508)
	172,585	213,927

(a) The following is a list of the subsidiaries at 30th June 2003:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ registered capital	Interest held	
				Directly	Indirectly
Capital Instant Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	91%
Guangzhou Information Communication Co., Ltd. ("GZIC") (Note (i))	The PRC	Provision of internet related data services/ the PRC	RMB900,000	—	44% (Note (ii))
Guangzhou Thinker Vodatel Development Company Limited ("GZ Thinker") (Note (i), (iii))	The PRC	Research and development of wireless data communications and internet related products the PRC	US\$1,505,000	—	60%
Guangzhou Vodatel Development Limited ("GVDL") (Note (i))	The PRC	Design, sale and implementation of data networking systems and the provision of related engineering services/ the PRC	RMB3,000,000	—	54%

14 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
Mega Datatech Limited (Note (i))	Macau	Computer software and hardware integration/ Macau	MOP100,000	—	100%
MegaInfo China Holdings Limited	British Virgin Islands	Investment holding/ the PRC	1,000 ordinary shares of US\$1 each	—	100%
MegaInfo Holdings Limited	Bermuda	Investment holding/ Hong Kong	1,000,000 ordinary shares of HK\$0.1 each	—	100%
MegaInfo Limited	British Virgin Islands	Investment holding and provision of digital image processing management solution/ Macau	820 ordinary shares of US\$1 each	—	100%
MegaInfo Software Limited	British Virgin Islands	Owner of intellectual property rights/ Macau	1,000 ordinary shares of US\$1 each	—	100%
MegaInfo Solutions Holdings Limited	British Virgin Islands	Owner of intellectual property rights/ the PRC	1,000 ordinary shares of US\$1 each	—	100%
Tidestone Science and Technology (Hong Kong) Company Limited (Note (i))	Hong Kong	Investment holding/ Hong Kong	1,000 ordinary shares of HK\$1 each	—	83%

NOTES TO THE ACCOUNTS

14 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
Tidestone Software (Shanghai) Corporation Limited (Note (i))	The PRC	Research and development of software and related software consultancy services/ the PRC	US\$120,000	—	83%
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%
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%
Vodatel International Holdings Limited	British Virgin Islands	Investment holding/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%

14 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 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 Networks (H.K.) Limited	Hong Kong	Sale of data networking systems and provision of related engineering services/ Hong Kong	1,000 ordinary shares of HK\$1 each	—	100%
Vodatel Software Limited	British Virgin Islands	Investment holding/ 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%
Vodatel Technology Limited (Formerly known as Worldtown International Limited)	British Virgin Islands	Owner of intellectual property rights and trademarks/ Hong Kong	1,000 ordinary shares of US\$1 each	—	100%

NOTES TO THE ACCOUNTS

14 Investments in subsidiaries - Company (Continued)

Notes:

- (i) PricewaterhouseCoopers, Hong Kong is not the statutory auditors of these companies. The aggregate net assets of these subsidiaries amounted to approximately 6% of the Group's net assets.
 - (ii) GVDL holds 81.82% interest directly in GZIC.
 - (iii) As at 30th June 2002, the Company had 49% indirect interest in GZ Thinker and GZ Thinker was classified as an associated company of the Group. During the year, the Company has acquired an additional 11% indirect interest in GZ Thinker for a cash consideration of approximately HK\$1,846,000 and GZ Thinker has become a subsidiary of the Company after the acquisition. At the same time, further capital of HK\$722,000 was injected in GZ Thinker.
- (b) The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15 Investments in associated companies

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets (Note (a))	5,257	4,023
Advances to associated companies (Note (b))	3,164	5,564
	8,421	9,587
Less: provision for advances to associated companies (Note (b))	(3,164)	(2,996)
	5,257	6,591
Unlisted shares, at cost	37,283	33,107

15 Investments in associated companies (Continued)

(a) The following is a list of the associated companies at 30th June 2003:

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%
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%
Guangzhou LG Tops Communication Technologies Co. Ltd. ("LG Tops")	The PRC	Research and development of wireless data communications and internet related products	US\$6,000,000	12% (note (i))

Note:

- (i) GZ Thinker holds 20% interests directly in LG Tops.
- (b) The advances to associated companies are unsecured, interest-free and have no fixed terms of repayment. The advances were fully provided for at year end.

NOTES TO THE ACCOUNTS

16 Deposit on acquisition of subsidiaries - Group

This represents deposit made to independent third parties for the acquisition of 100% shareholding in Power Express (Macau) Limited and PE Research and Development Limited. As at 30 June 2003, total consideration and detailed terms are still under negotiation.

17 Non-trading securities

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity securities, at market value		
Listed in Hong Kong	3,694	10,320
Listed outside Hong Kong	1,533	1,092
	5,227	11,412
Unlisted	7,843	6,112
Less: impairment charge	(3,002)	(1,674)
	10,068	15,850
Convertible notes, unlisted (Note)	1,600	600
	11,668	16,450

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 agreements dated 28th March 2002 and 3rd August 2002 respectively.

18 Inventories

	Group	
	2003 HK\$'000	2002 HK\$'000
Networking equipment	153,138	114,141
Less: provision	(13,565)	(3,329)
	139,573	110,812

At 30th June 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$23,173,000 (2002: Nil).

19 Trade and bills receivables

At 30th June 2003, the ageing analysis of the trade and bills receivables were as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0-3 months	42,985	66,441
4-6 months	19,479	48,797
7-12 months	54,437	54,752
Over 12 months	43,089	43,309
	159,990	213,299
Less: provision	(21,942)	(21,942)
	138,048	191,357

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.

NOTES TO THE ACCOUNTS

20 Trade and bills payables

At 30th June 2003, the ageing analysis of the trade and bills payables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0-3 months	39,129	52,680
4-6 months	2,536	18,671
7-12 months	1,729	1,407
Over 12 months	5,745	25,707
	49,139	98,465

21 Convertible bonds

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Convertible bonds	9,725	27,230
Less: current portion	(9,725)	(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 bonds 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.

On 26th February 2003, the Company exercised the rights of conversion and CB1 in the aggregate principal amount of US\$1,500,000 (equivalent to approximately HK\$11,670,000) was converted into 5,835,000 ordinary shares (Note 22) of the Company, representing approximately 1% of the issued share capital of the Company as enlarged by such issue.

21 Convertible bonds (Continued)

- (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.

On 28th February 2003, the Company redeemed CB2 with aggregate principal amount of US\$750,000 (equivalent to approximately HK\$5,835,000) and cash was paid to the bondholder.

- (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.

As at 30th June 2003, the right of conversion of CB3 has not been exercised by the bondholder. The exercise of the right of conversion would, under the present capital structure of the Company, result in the issue of approximately 4,862,500 additional ordinary shares of the Company, represented approximately 0.8% of the issued share capital of the Company as enlarged by such issue.

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

Any outstanding convertible bonds will be repaid by the Company at par as at the maturity date on 28th February 2004.

NOTES TO THE ACCOUNTS

22 Share capital

	Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
Authorised		
At 30th June 2001, 2002 and 2003	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid		
At 30th June 2001 and 2002	607,984,000	60,798
Issue of shares (Note 21)	<u>5,835,000</u>	<u>584</u>
At 30th June 2003	<u>613,819,000</u>	<u>61,382</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).

22 Share capital (Continued)

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 5th November 2002, the share option scheme adopted by the Company on 10th February 2000 (the "Old Scheme") was terminated and another share option scheme (the "New Scheme") was adopted. On 30th June 2003, 17,178,000 share options under the Old Scheme were cancelled and 17,138,000 share options were granted under the New Scheme to eligible participants. The share options outstanding as at 30th June 2003 are as follows:

Date of share options granted	Number of share options outstanding as at 1st July 2002	Number of share options granted during the year	Number of share options lapsed during the year	Number of share options cancelled during the year	Number of share options outstanding as at 30th June 2003	Exercise period	Exercise price per share HK\$
16th August 2000	5,626,000	—	(514,000)	(5,112,000)	—	16th February 2001 - 15th February 2004	1.19
1st August 2001	13,466,000	—	(1,400,000)	(12,066,000)	—	1st February 2002 - 31st January 2005	0.79
30th June 2003	—	17,138,000	—	—	17,138,000	30th June 2003 - 29th June 2006	0.42
	<u>19,092,000</u>	<u>17,138,000</u>	<u>(1,914,000)</u>	<u>(17,178,000)</u>	<u>17,138,000</u>		

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of approximately 17,138,000 additional ordinary shares and cash proceeds to the Company of approximately HK\$7,198,000 before the related share issue expenses.

NOTES TO THE ACCOUNTS

23 Reserves

	Group						Total HK\$'000
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Merger reserve HK\$'000 (note (a))	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)	—	—	—	—	—	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>

NOTES TO THE ACCOUNTS

23 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 (a))	Exchange reserve HK\$'000	Statutory reserve HK\$'000 (Note (b))	Retained earnings HK\$'000	
At 1st July 2002	86,590	702	(2,372)	35,549	(10)	—	147,779	268,238
Share premium on issuance of shares	11,086	—	—	—	—	—	—	11,086
Surplus on revaluation of non-trading securities	—	—	114	—	—	—	—	114
Reserves transferred to profit and loss account upon disposal of a non-trading security	—	—	(1,900)	—	—	—	—	(1,900)
Exchange differences arising on translation of accounts of overseas subsidiaries and an associated company	—	—	—	—	118	—	—	118
Provision of Macau statutory reserve	—	—	—	—	—	49	(49)	—
Profit attributable to shareholders	—	—	—	—	—	—	10,594	10,594
2001/2002 Final dividend paid	—	—	—	—	—	—	(3,040)	(3,040)
2002/2003 Interim dividend paid	—	—	—	—	—	—	(6,138)	(6,138)
At 30th June 2003	<u>97,676</u>	<u>702</u>	<u>(4,158)</u>	<u>35,549</u>	<u>108</u>	<u>49</u>	<u>149,146</u>	<u>279,072</u>
Representing:								
2002/2003 Final dividend proposed								3,069
Reserves at 30th June 2003								<u>276,003</u>
								<u>279,072</u>
Company and subsidiaries	97,676	702	(4,158)	35,549	108	49	155,014	284,940
Associated companies	—	—	—	—	—	—	(5,868)	(5,868)
At 30th June 2003	<u>97,676</u>	<u>702</u>	<u>(4,158)</u>	<u>35,549</u>	<u>108</u>	<u>49</u>	<u>149,146</u>	<u>279,072</u>

NOTES TO THE ACCOUNTS

23 Reserves (Continued)

- (a) 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.
- (b) The Macau Commercial Code requires a company incorporated in Macau to set aside a minimum of 25% of the company's profit after taxation to the statutory reserve each financial year until the balance of the reserve reaches a level equivalent to 50% of the company's capital. Statutory reserve represents amount set aside from the profit and loss account and is not distributable to shareholders of the Company.

	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)	—	—	—	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>

23 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 2002	86,590	73,718	702	13,047	174,057
Share premium on issuance of shares	11,086	—	—	—	11,086
2001/2002 Final dividend paid	—	—	—	(3,040)	(3,040)
Profit attributable to shareholders	—	—	—	12,333	12,333
2002/2003 Interim dividend paid	—	—	—	(6,138)	(6,138)
At 30th June 2003	<u>97,676</u>	<u>73,718</u>	<u>702</u>	<u>16,202</u>	<u>188,298</u>
Representing:					
2002/2003 Final dividend proposed					3,069
Reserves at 30th June 2003					<u>185,229</u>
					<u>188,298</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 2003 amounted to HK\$89,920,000 (2002: HK\$86,765,000).

NOTES TO THE ACCOUNTS

24 Notes to the consolidated cash flow statement

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Profit before taxation	12,690	69,312
Share of losses of associated companies	2,488	876
Depreciation	2,503	2,210
Loss on disposal of fixed assets	8	2
Realised gain on disposal of a non-trading security	(2,717)	—
Impairment of a non-trading security	1,328	1,674
Impairment of goodwill	840	—
Amortisation of goodwill	145	—
Increase in amount due from an associated company	—	(858)
Increase in inventories	(28,117)	(24,682)
Decrease in trade and bills receivables and other receivables, deposits and prepayments	46,534	5,947
Decrease in trade and bills payables	(51,548)	(59,575)
Decrease in other payables and accruals	(19,557)	(10,877)
Interest expenses	635	173
Interest income	(1,851)	(3,588)
Dividend income	(650)	(649)
Exchange differences	116	29
Cash outflow from operating activities	(37,153)	(20,006)

24 Notes to the consolidated cash flow statement (Continued)
(b) Purchase of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Fixed assets	183	—
Interest in an associated company	9,283	—
Inventories	644	—
Trade and bills receivables	14	—
Other receivables, deposits and prepayments	228	—
Bank balances and cash	2,200	—
Trade and bills payables	(2,222)	—
Other payables and accruals	(121)	—
Taxation payable	(2)	—
Minority shareholders' interests	(4,083)	—
	6,124	—
Goodwill	1,447	—
Carrying value of interest in an associated company	(5,003)	—
	2,568	—
Satisfied by		
Cash	2,568	—

NOTES TO THE ACCOUNTS

24 Notes to the consolidated cash flow statement (Continued)

(c) Analysis of the net inflow in respect of the purchase of a subsidiary:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	(1,846)	—
Cash injected as capital	(722)	—
Add: cash advanced in previous year	2,568	—
Bank balances and cash in hand acquired	2,200	—
	<hr/>	<hr/>
Net cash inflow in respect of the purchase of a subsidiary	2,200	—
	<hr/> <hr/>	<hr/> <hr/>

25 Banking facilities

At 30th June 2003, the Group's banking facilities of HK\$350,840,000 (2002: HK\$407,000,000) are secured by the following:

- (a) corporate guarantee given by certain subsidiaries amounting to HK\$270,840,000 (2002: HK\$327,000,000);
- (b) corporate guarantee given by the Company amounting to HK\$350,840,000 (2002: HK\$407,000,000); and
- (c) cross corporate guarantees between the Company and certain subsidiaries amounting to HK\$80,000,000 (2002: HK\$80,000,000).

26 Contingent liabilities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees for bank loans and overdrafts of subsidiaries	—	—	350,840	407,000
Trade receivables discounted with full recourse	18,376	—	—	—
	18,376	—	350,840	407,000

Management anticipate that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

27 Commitments

(a) Capital commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for	—	—
Authorised but not contracted for	—	1,000
	—	1,000

NOTES TO THE ACCOUNTS

27 Commitments (Continued)

(b) Operating lease commitments

At 30th June 2003, the Group and Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,592	927
In the second to fifth year inclusive	1,536	445
After the fifth year	7	88
	3,135	1,460

28 Related party transactions

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

	2003 HK\$'000	2002 HK\$'000
Sales of goods to Zetronic Comunicações Lda (Note (a))	67	289
Rental charges payable to a director of the Company (Note (b))	678	60
Network service fee payable to an associated company, Crossland Business Solution Limited ("CBS") (Note (c))	—	400

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

28 Related party transactions (Continued)

- (c) Last year's amount represented network service fee payable which was 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.
- (d) At 30th June 2003, the Group had unsecured advances to the following associated company:

	2003 HK\$'000	2002 HK\$'000
Vodatel Crossland Technology Holdings Limited ("VCT") (Note)	3,164	2,996

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 2003.

29 Subsequent event

Directors expect that a wholly-owned subsidiary of the Company will complete a three-year term loan facility for US\$15 million, secured by a corporate guarantee executed by the Company in favor of the lenders. The interest rate of the loan will be 1.35% over LIBOR. The term loan will be repayable in 4 semi-annual equal installments commencing after eighteen months from the date of the loan facility agreement. The proceeds will be used for general corporate purposes and for general working capital.

30 Approval of accounts

The accounts were approved by the board of directors on 22nd September 2003.

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 30th June

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000 (restated)	2000 HK\$'000 (restated)	1999 HK\$'000
Turnover	388,794	601,108	546,915	482,267	478,420
Profit attributable to shareholders	10,594	56,992	54,136	78,185	71,229
Total assets	491,822	552,275	548,449	459,699	283,739
Total liabilities	151,368	223,239	255,638	215,040	233,744
Net assets	340,454	329,036	292,811	244,659	49,995

The turnover, profit attributable to shareholders, total assets and total liabilities of the Group for each of the two 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 Fourth Annual General Meeting of Shareholders of the Company will be held at the Alexandra Room, 2/F, Mandarin Oriental Hong Kong, on Monday, 24th November 2003 at 3:00 p.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 2003.
2. To approve the payment of a final dividend for the year ended 30th June 2003.
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 powers 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 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, 29th September 2003

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business:

No. 74 da Rua da Felicidade
Edif. 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 19th November 2003 to 24th November 2003, 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, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 18th November 2003.
 2. Every member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies (if a member who is the holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.
 3. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's principal place of business in Hong Kong at Room 1401, 14th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, not less than 48 hours before the appointed time for holding the Meeting.
 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 2003 Annual Report.
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1. The register of members of the Company will be closed from 19th November 2003 to 24th November 2003, 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, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 18th November 2003.
 2. Every member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies (if a member who is the holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.
 3. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's principal place of business in Hong Kong at Room 1401, 14th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, not less than 48 hours before the appointed time for holding the Meeting.
 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 2003 Annual Report.

ABBREVIATIONS

“ATM”	Asynchronous Transfer Mode
“Board”	Board of Directors of Vodatel Networks Holdings Limited
“CATV”	Cable TV operator
“DDN”	Digital Data Network
“IP”	Internet Protocol
“MegalInfo”	MegalInfo Holdings Limited
“MSTP”	Multi-Services Transport Platform
“Netcom”	China Netcom Corporation Ltd.
“OSS”	Operation Support System
“PDH”	Plesiochronous Digital Hierarchy
“PRC”	The People’s Republic of China, but for the purpose of this annual report and for geographical reference only excludes Hong Kong, Macau and Taiwan
“Riverstone”	Riverstone Networks, Inc.
“SDH”	Synchronous Digital Hierarchy
“Vodatel” or “the Group”	Vodatel Networks Holdings Limited and its subsidiaries
“Zetronic”	Zetronic Comunicações Lda.

