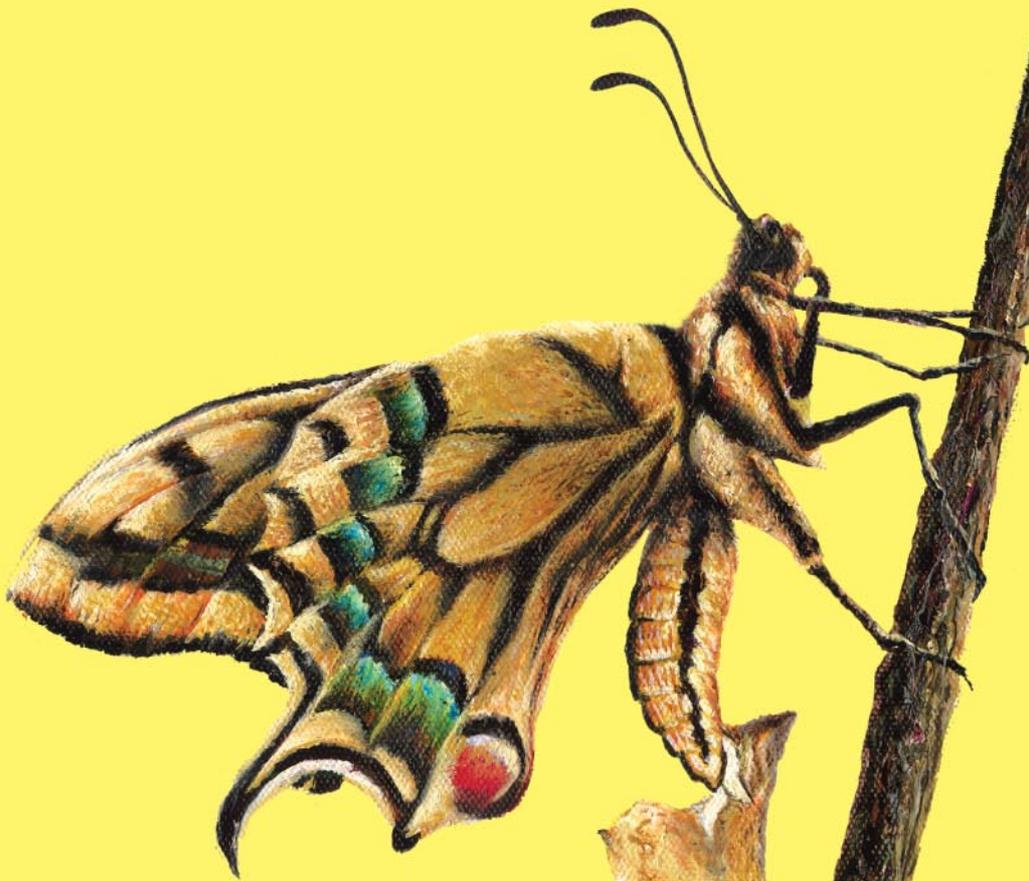




VODATEL



Annual Report
2004

CHARACTERISTICS OF GEM

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

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

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

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CORPORATE INFORMATION

Directors

Executive Directors

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

Independent Non-executive Directors

Chui Sai Cheong
Lo King Chiu Charles
Fung Kee Yue Roger

Authorised Representatives

Yim Hong
Monica Maria Nunes

Company Secretary

Foo Chun Ngai Redford, CPA, FCCA

Qualified Accountant

Foo Chun Ngai Redford, CPA, FCCA

Compliance Officer

Monica Maria Nunes

Audit Committee

Chui Sai Cheong
Lo King Chiu Charles
Fung Kee Yue Roger

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 and Principal Place of Business

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Edifício Vodatel
Taipa
Macao
Tel: (853) 721182, 718033
Fax: (853) 717800, 752909

Place of Business in Hong Kong

Unit 3201, 32nd Floor, AIA Tower
183 Electric Road
North Point
Hong Kong
Tel: (852) 2587 8868
Fax: (852) 2587 8033

Website

<http://www.vodatelsys.com>

Bankers

Banco Comercial de Macau, S.A.
HSH Nordbank AG
Industrial and Commercial Bank of China (Asia) Limited
Standard Chartered Bank (Hong Kong) Limited

Share Registrars

Abacus Share Registrars Limited
Ground Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong



COMPANY PROFILE

The Group carries the vision to deliver high quality solutions to customers allowing them to manage their business and reach out for infotainment services, anywhere and anytime. The Group principally engages in the provision of network and system infrastructure, enterprise solutions and multimedia value-added services.

The Group provides an integrated services in network and system infrastructure ranging from network and system planning, design, provision of network equipment and software, installation and implementation to maintenance and technical support for public telecommunications service providers, such as China Telecom, China Netcom, China Unicom and China Mobile, and enterprises in selected vertical markets in Mainland China and Macao, such as gaming operators, cable TV operators, electricity bureaus and governmental authorities.

Through its separate listing entity, MIHL, the Group is engaged in the research, development and delivery of innovative and quality value-added applications, with an aim to increase operating effectiveness and efficiencies of enterprises.

The Group is also engaged in the provision of multimedia value-added services in the Asia Pacific Region and Europe, offering mobile and fixed line services such as content and campaign management, distribution and billing via a number of platforms including IVR, interactive internet solutions and premium rate SMS.

Headquartered in Macao and listed on GEM, the Group enjoys a leadership position in Macao and seeks to further expand its penetration into the global market.

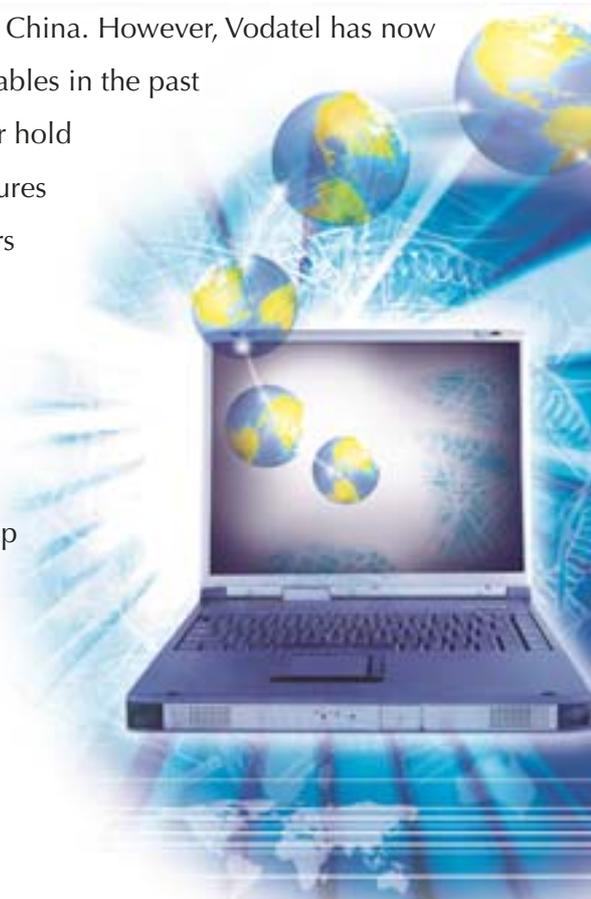
CHAIRMAN'S STATEMENT

To our Members,

The journey of the past eighteen months has certainly been challenging to the management of Vodatel. The Group that we have built, our ability to sustain our successes that we have historically achieved and the prospects of Vodatel have been put to a test. Have our confidence been shaken by the difficult market environment? Are the future prospects of Vodatel in doubt? We see the answer to these questions is a resounding "NO". Our vision has remained as crystal clear as before — Vodatel delivering high quality solutions to customers allowing them to manage their business and reach out for information, anywhere and anytime — and we have the necessary qualities and building blocks to put the Group back on track.

For the first time since the listing of Vodatel on GEM in 2000, we have reported a loss and have not declared any dividend. During the past three years, Vodatel has been operating in a frustrating mix of conditions. We have stayed tightly focused and committed on achieving our goals — the introduction of new products to our customers and establishment of our market reputation as the "destination of choice" for data networking solutions in Mainland China. However, Vodatel has now certainly entered into a period of changes where many of the variables in the past regarding our customers and the market that we operate no longer hold true. We are now facing increasing competition and pricing pressures and an atmosphere whereby telecommunications service providers entered into a prolonged period of investing their capital expenditure outside the products and services domain of Vodatel.

We have been carefully evaluating the changing environmental factors affecting the Group and sector and put in place a transformational strategic path that is designed to shelter the Group against turbulent changes and set Vodatel to a new vision for the coming years. We have implemented a series of moves to achieve our strategies.



Foremost, we divested MIHL by separately listing it as an independent company on GEM, allowing Vodatel to concentrate its focus on its core businesses.

In Mainland China, in line with market momentum that shaped market prospects and the emergence of new market landscape, we have streamlined our operations to set the pace of changes. We consolidated and combined the number of representative offices and reduced our workforce to control costs. We also introduced our self-developed solutions to enhance the overall margin that have been weakened by difficult operating environment and increasing competition.

Macao, a small city yet eye-catching, enjoys an indisputable strong and robust operating environment, with growth momentum remaining strong in the years to come. With our roots in Macao, we realigned our resources to reinforce our leadership position in our homeland, expanding our reach from supporting networking infrastructure and surveillance solutions for gaming operators to core communications infrastructural blocks for the police and security force in the local territory.

With a compelling vision and a clear strategy to diversify our earning base and strive sustained and profitable growth, we made an important decision. During 2004, Vodatel made a landmark acquisition of 60% of TCM.

The acquisition of TCM diversified the business of Vodatel into the fixed and mobile multimedia value-added services spectrum, marking our first leap into the international stage. TCM enriched the product portfolio of Vodatel with new and enhanced information and entertainment services and opened us to a broad group of customers in Europe. We believe as we gradually strengthen the financial standing of TCM and by combining the geographical coverage and market experience of MTel in the Asia Pacific region and opening TCM to the market in Mainland China by incorporating the resources and network of Vodatel, we will unlock a value of a global play and bring in a long-term contribution to Vodatel, fueling growth on multiple fronts.



The path going forward for Vodatel will not be easy. However, as we have transformed ourselves to a new company, we are confident that with a clear and direct focus, determined energy, support from our partners and dedicated employees, we are ready for the next stage of a new journey.

José Manuel dos Santos
Chairman
Hong Kong, 14th April, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

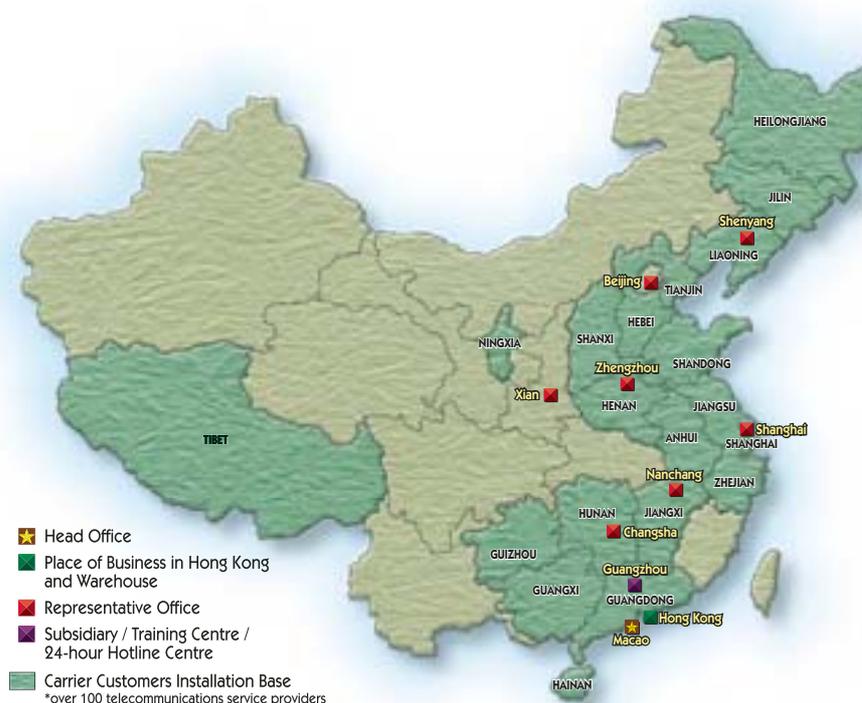
REVIEW OF BUSINESS ACTIVITIES

Mainland China - Adopting new rules to repeat a successful history

Increasing market competition from equipment manufacturers and capital spending of telecommunications service providers outside the product domain of the Group attributed to the challenges the Group faced in its core business in Mainland China. With changing parameters in the market where the Group used to operate and diversification of business to different geography, revenue derived from its premium customer base, as a percentage of the total turnover of the Group, dropped from approximately 86.1% to approximately 68.0%.

During the Eighteen-Month Period, the Group has undergone a series of cost cutting measures, including the consolidation and combination of the number of representative offices from twelve to seven and reduction of the workforce that focused primarily in the design, sale and implementation of data networking systems in Mainland China by 28%.

Capitalising on its most valuable asset, that is, a premium installed customer base, the Group has added the self-developed OSS to the product portfolio of the Group to enhance the overall margin of its business in Mainland China. During the Eighteen-Month Period, the OSS has successfully been installed at various telecommunications service providers, including Guangdong China Telecom, Chongqing China Telecom, Wuxi China Telecom and Xinjiang China Telecom. To improve the marketability of the OSS and expand its applications, the Group has



further improved the functionalities and upgraded the OSS to support data networks built from an increasing number of local and international equipment vendors.

Macao - Capitalising a leading position in the home territory

The strong business momentum brought from the opening up of the gaming industry, the upcoming 2005 East Asian Games and the mandate of the Government of Macao to promote e-government have created numerous opportunities for the Group during the Eighteen-Month Period. Capitalising on its leadership position in Macao and with a strong team of software developers and engineers, the Group successfully secured various projects in the territory, including infrastructural projects from gaming operators, the Macao 4th East Asian Games Organising Committee and the Government of Macao.

During the Eighteen-Month Period, partnering with Motorola Asia Pacific Limited, the Group has been awarded the digital TETRA radio system project for the police and security force of the Government of Macao. The TETRA radio system project, which amounted to HK\$60,600,000, is expected to be completed during 2005.

Europe - Reshaping into a leading player in fixed and mobile interactivity

The acquisition of TCM marked the entry of the Group into the provision of multimedia value-added interactivity services in Europe. While TCM will remain its focus on the provision of infotainment via IVR and SMS platforms, offering information and entertainment services such as ringtones and games downloads, tarots reading, chat room, call&win programs, etc., the Group has identified the following elements to reposition TCM to become a leading player in the provision of fixed and mobile value-added services:

- Create an efficient and reliable connectivity platform for infotainment delivery and distribution;
- Develop new and innovative ideas for mobile marketing and promotion;
- Source and distribute new contents over existing and new channels;
- Develop branded products and contents of TCM for distribution globally;
- Introduce innovative applications in the game and entertainment market; and
- Establish presence in emerging markets such as Mainland China.

With value-added services and content provisions becoming the driving engines of revenue growth, the key to success also rests with the ability to establish close collaboration with mobile and fixed line operators. Therefore, in addition to the establishment of task forces to achieve each of the elements as identified above, the Group has realigned its marketing teams to focus on maintaining closer relationship with both existing strategic telecommunications partners and potentially new ones.



REVIEW OF OPERATING RESULTS

Change of Financial Year End

In order to be coterminous with the financial year end date of the subsidiaries acquired during the Eighteen-Month Period and to realign the taxation year end of its subsidiaries, the financial year end date of the Company was changed from 30th June to 31st December. In consequence, the comparative amounts for the consolidated profit and loss account and the related notes to the accounts are not directly comparable.

Turnover and Profitability

During the Eighteen-Month Period, total turnover of the Group amounted to HK\$589,883,000. Turnover from Mainland China used to be the major contributor of the Group. However, during the Eighteen-Month Period, with increased business activities from Macao and turnover brought from the acquisition of TCM, turnover derived from Mainland China dropped, as a percentage of the total turnover of the Group, from approximately 86.1% to approximately 68.0%, whereas turnover derived from Hong Kong/Macao and Europe now represented approximately 25.3% and 6.8% of the total turnover of the Group respectively. As turnover for the Eighteen-Month Period consolidated turnover of TCM for only six months and turnover of CAOCL for only four months, the Group expects the mix derived from Hong Kong/Macao and Europe to change during 2005.

Gross profit of the Group decreased from approximately 22.3% to approximately 6.4%, explained by increasing market competition from equipment manufacturers, projects in Macao and trading of mobile phones carrying lower margins, and write-down of inventories by HK\$49,646,000 to take into account of slow moving data networking equipment as a result of difficult market conditions in Mainland China.

Should the Group exclude the write-down of inventories, provision for doubtful debts, impairment, depreciation and amortisation, the Group registered an operating loss of HK\$46,838,000, of which HK\$11,569,000 and HK\$12,765,000 pertained to operating loss of MIHL and TCM respectively. Operating loss attributed to the segment of design, sale and implementation of data networking systems, provision of related engineering services and sale of goods amounted to HK\$22,504,000.

With the recognition of a deemed disposal gain of HK\$17,953,000 arose from the separate listing of MIHL, the Group registered a net loss for the Eighteen-Month Period of HK\$173,625,000.



Capital Structure, Liquidity and Financial Resources

During the Eighteen-Month Period, the cash balances of the Group have been strengthened by the successful raising of the US\$15,000,000 syndicated term loan. Cash was deployed against the retirement of the US\$1,250,000 convertible bonds previously issued to Riverstone Networks, Inc., repayment of the short-term bank loans raised to support the working capital of a subsidiary in Mainland China, increase of our equity participation and subscription of additional convertible notes of MTel and the acquisition of TCM and CAOCL. For the transactions related to MTel, TCM and CAOCL, please also refer to section "Details of Material Acquisitions and Disposals".

As at 31st December, 2004, gearing ratio (total borrowings / Members' funds) of the Group stood at 85%. Included in total were US\$15,000,000 (approximately HK\$116,700,000) syndicated term loan, HK\$16,200,000 of working capital and a loan incurred by TCM of HK\$14,200,000. Although the Group has total borrowings of HK\$147,100,000, cash on hand as at 31st December, 2004, excluding US\$5,000,000 financial bonds purchased to enhance the yield of the Group, amounted to HK\$168,800,000.

The Group acknowledged that pursuant to the announcement of its results for the Eighteen-Month Period, certain financial covenants under the loan facility agreement effective on 26th September, 2003 entered into between VHL and the Lenders referring to the US\$15,000,000 term loan facility are breached. The Group has maintained sufficient cash balances to repay the outstanding term loan facility in the event the Company fail to obtain consent from the Lenders to waive such breaches.

Employees' Information

As at 31st December, 2004, the Group had 343 employees, of which 118, 16, 167 and 42 employees were based in Macao, Hong Kong, Mainland China and Europe respectively. Employee costs, excluding Directors' emoluments, totaled HK\$57,631,000 for the Eighteen-Month Period.

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

The Company adopted a share option scheme, whereby certain employees of the Group may be granted options to acquire the Shares. Details of the share option scheme are set out under the section "Share Options" in the report of the Directors.

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

Capital Commitments and Significant Investments

As at 31st December, 2004, the Group did not have any significant capital commitments and significant investments, other than those set out under the paragraph "Details of Material Acquisitions and Disposals" below.

Charges on Group Assets

As at 31st December, 2004, the Group did not have any charges on assets of the Group.

Details of Material Acquisitions and Disposals

During the Eighteen-Month Period, the Group acquired 7.3% equity shareholding and convertible notes in the principle amount of HK\$1,600,000 of MTel for consideration of HK\$15,700,000, acquired 60% equity shareholding of TCM for consideration of ¥2,300,000 (approximately HK\$24,403,000), injected ¥2,300,000 (approximately HK\$24,403,000) shareholder's loans into TCM and acquired 100% equity shareholding of CAOCL for consideration of MOP5,800,000 (approximately HK\$5,600,000). The Group also disposed 38.95% of MIHL subsequent to the separate listing of MIHL on GEM. Save as disclosed above, the Group had no material acquisitions or disposals.

Details of Future Plans for Material Investment or Capital Assets

On 12th January, 2005, the Group subscribed for approximately ¥759,000 (approximately HK\$8,053,000) convertible notes issued by TCM. Save as disclosed above, the Directors do not have any future plans for material investment or capital assets.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in HK\$, MOP, US\$, ¥ and Renminbi (the lawful currency of Mainland China). The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

José Manuel DOS SANTOS, aged 57, was appointed as an executive Director on 13th December, 1999. He is the founder of the Group and Chairman of the Company. He has experience of over thirty years in the telecommunications industry in the Asia Pacific region. He served in a senior position at Direcção dos Serviços de Corrcios e Telecomunicações, the telecommunications authority of the Government of Macao, prior to the founding of Zetronic and subsequently the Group. He is an executive director of MIHL.

YIM Hong, aged 47, was appointed as an executive Director on 14th December, 1999. He is the Managing Director of the Company in charge of overall operations. He graduated from the University of London, UK with a Bachelor of Science degree. With more than twenty years of experience in the IT industry, he joined the Group in 1998. Prior to joining the Group, he was the area business director at Newbridge and the country manager at 3Com Corporation. He is also a non-executive director of MIHL.

KUAN Kin Man, aged 40, was first appointed as an executive Director on 14th December, 1999. He is 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. He joined Vodatel Systems (the assets and liabilities of which were assigned to VHL on 1st July, 1998) on 8th July, 1992 to assume the role of sales manager and was promoted to general manager in 1994. He is also a non-executive director of MIHL.

Monica Maria NUNES, aged 36, was first appointed as an executive Director on 13th December, 1999. She is the finance director of the Company. She graduated from the University of Calgary, Canada with a Bachelor of Commerce degree. She joined the Group in 1999 and has over ten years of accounting and banking experience. She holds a Certified Management Accountant Designation of Certified Management Accountants of Alberta, Canada.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHUI Sai Cheong, aged 51, was first appointed as an independent non-executive Director on 14th December, 1999. He is a registered auditor and a civil constructor in Macao and a fellow of CPA Australia with a Master degree in Business Administration from Chaminade University of Honolulu, USA. He is a member of several key Governmental committees including the National Committee of the CPPCC, the Legislative Assembly of Macao, the Preparatory Committee of Macao, the Selection Committee for the first Government and the Election Committee of the second Government of Macao. He holds several prominent positions in professional bodies including the Macao Chamber of Commerce (vice president of board of director), the Macau Management Association (president) and the Association of Economic Sciences of Macao (president). He is an independent non-executive director of MIHL and Innovo Leisure Recreation Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board.

LO King Chiu Charles, aged 61, was first appointed as an independent non-executive Director on 14th December, 1999. He holds a Bachelor of Arts degree and major in economics from Lake Forest University, USA in 1967. He is a member of Jiangxi Province Committee, CPPCC. He is the special advisor to president (Asia) of the University of Victoria, Canada and is a consultant on public relations for British American Tobacco Plc in Macao. He is also the founder of the Macao Junior Chamber of Commerce and past president of the Rotary Club in Macao.

FUNG Kee Yue Roger, aged 52, was first appointed as an independent non-executive Director on 30th September, 2004. He is the managing director of Mitel Networks Asia Pacific Limited, a wholly owned subsidiary of Mitel Networks Corporation in Canada. He graduated from the University of Toronto with a Bachelor of Applied Science degree in industrial engineering. He was a member of Professional Engineers Ontario, Canada. He has more than twenty years of experience in the telecommunications and electronics industry.

SENIOR MANAGEMENT (By alphabetical order)

CHAN Chi Pio, aged 35, is the technical support manager of the Group. He joined the Group in 1992 after having graduated from Huaqiao University, PRC with a Bachelor of Science degree in the same year.

HO Wai Sam Paul, aged 42, is the director of technical services of the Group. He graduated from Asia International Open University (Macau) with a Master of Business Administration degree. He had worked in Companhia de Telecomunicações de Macau S.A.R.L. for eighteen years and was head of transport network covering the international and national engineering such as optical fibre, synchronous and plesiochronous digital hierarchy transmission, submarine cable, microwave and satellite earth station. He joined the Group in 2000.

NG Ka Leung, aged 35, is the technical support manager of the Group. He graduated from UM, PRC, with a Bachelor of Science degree in 1994. He has been with the Group since 1995.

SI I Hong, aged 36, is the senior regional business director of the Group. He graduated from UM, PRC with a Bachelor of Science degree. He joined the Group in 1994. He had working experience in banking and hotel industries before joining the Group.

Wouter Rudolf Karel STEINER, aged 47, is currently the managing director of TCM in charge of the overall operations in the Netherlands, Germany, Spain and Finland. He has over fifteen years of industry knowledge in the provision of value-added services in Europe and has previously held positions responsible for the development of new markets, for example, the United Mexican States, Finland, the Kingdom of Sweden and the Italian Republic, where he has accumulated extensive international experience. He graduated from the Universiteit van Amsterdam, the Netherlands with a major in media and information law.

TSUI Wai Ming Maurice, aged 45, is the country director of the Group responsible for managing the sales operation in the PRC. He graduated from the Imperial College of Science, Technology and Medicine, UK 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.

WANG Qing, aged 34, is the regional business manager of the Group. He graduated from NUPT, PRC with a Bachelor of Science degree in 1992. He joined the Group in 1994. He was an engineer at a telecommunications equipment firm before joining the Group.

WONG Chi Ping, aged 55, is the business development director of the Group. He has over twenty years of experience in the audio and electronic industries in the PRC. Prior to his joining the Group in 1999, he worked for Zetronic for more than ten years responsible for the operation and marketing of voice telecommunications business.

WONG Wai Kan, aged 40, is the senior regional business director of the Group. He graduated from the Jinan University, PRC with a Bachelor of Science degree. He has been with the Group since 1993. He worked in the fields of purchasing and banking before joining the Group.

WU Wenhua, aged 41, is currently the chief executive officer of TSTSH in charge of overall operations, overseeing the sales and marketing, technical development and management of TSTSH. With a doctoral degree from the University of Waterloo, Canada, he has previously worked for international software development corporations, where he has accumulated over thirteen years of product development experience, in particular, development of network management systems for telecommunications service providers. He has established good connections with telecommunications service providers in the PRC.

ZENG Qing Shi, aged 34, is the regional business manager of the Group. He graduated from NUPT, PRC with a Bachelor of Science degree and from Hunan University, PRC with a Master in Business Administration degree. He joined the Group in 1994. He was an engineer at a factory under the Ministry of Aerospace of the Government of PRC before joining the Group.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the Eighteen-Month Period.

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 15 to the accounts.

An analysis of the performance of the Group for the Eighteen-Month Period by business and geographical segments is set out in note 3 to the accounts.

Change of financial year

In order to be coterminous with the financial year end date of the subsidiaries acquired during the Eighteen-Month Period and to realign the taxation year end of its subsidiaries, the financial year end date of the Company was changed from 30th June to 31st December. In consequence, the comparative amounts for the consolidated profit and loss account, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes to the accounts are not directly comparable.

Results and appropriations

The results of the Group for the Eighteen-Month Period are set out in the consolidated profit and loss account on page 29.

The details of dividends proposed and/or paid during the Eighteen-Month Period are set out in note 9 to the accounts.

The Directors do not recommend the payment of a final dividend.

Reserves

Movements in the reserves of the Group and of the Company during the Eighteen-Month Period are set out in note 26 to the accounts.

Donations

Charitable and other donations made by the Group during the Eighteen-Month Period amounted to approximately MOP120,000 (approximately HK\$117,000).

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 14 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 25 to the accounts.

Distributable reserves

Distributable reserves of the Company as at 31st December, 2004, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$62,790,000 (30th June, 2003: HK\$89,920,000).

Pre-emptive rights

There is no provision for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the laws of Bermuda, which will oblige the Company to offer new Shares on a pro-rata basis to existing Members.

Financial summary of five fiscal periods

A summary of the results and of the assets and liabilities of the Group for the last four financial years ended up to 30th June, 2004 and for the Eighteen-Month Period is set out on page 77.

Purchase, sale or redemption of securities

The Company has not redeemed any of the Shares during the Eighteen-Month Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the Eighteen-Month Period.

Share options

Share options were granted to certain Directors, executives and employees under a share option scheme approved by the Members at a special general meeting on 5th November, 2002. 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 Member's 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 and directors of its subsidiaries.

(c) Maximum number of Shares

The total number of Shares available for issue under the scheme as at 31st December, 2004 is 61,381,900, representing 10% of the issued share capital of the Company as at 31st December, 2004.

(d) Maximum entitlement of each qualified participant

No option shall be granted to any qualified participant which, if exercised in full, will result in the total number of Shares already issued and issuable to him 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 shall be exercised in a period of three years commencing on the date on which the option is granted and accepted by the grantee, or expiring on 4th November, 2012, whichever is earlier.

REPORT OF THE DIRECTORS

Share options (Continued)

(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 Exchange as stated in the daily quotation sheet of the Exchange on the date of which options are offered; and (ii) the average closing price of the Shares as stated in the daily quotation sheets of the Exchange for the five business days immediately preceding the date of which options are offered.

(h) Remaining life of the scheme

The scheme will remain valid until 4th November, 2012.

Details of the share options outstanding as at 31st December, 2004 which have been granted under the scheme are as follows:

Name or category of participant	Options held at 1st July, 2003	Options lapsed during the Eighteen-Month Period	Options held at 31st December, 2004	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
José Manuel dos Santos	600,000	—	600,000	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006
Yim Hong	900,000	—	900,000	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006
Kuan Kin Man	900,000	—	900,000	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006
Monica Maria Nunes	900,000	—	900,000	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006
Continuous contract employees	13,838,000	(2,672,000)	11,166,000	0.42(i)	30th June, 2003	30th June, 2003	29th June, 2006

Note:

- (i) As at the date before the options were granted, 27th June, 2003, the market value per Share was HK\$0.41.

Directors

The Directors during the Eighteen-Month Period were:

- José Manuel dos Santos
 - Yim Hong
 - Kuan Kin Man
 - Monica Maria Nunes
 - # Chui Sai Cheong
 - # Lo King Chiu Charles
 - # Fung Kee Yue Roger (first appointed on 30th September, 2004)
- # Independent non-executive Directors

In accordance with article 87 of the Bye-laws, Monica Maria Nunes retires by rotation and, being eligible, offers herself for re-election.

Chui Sai Cheong, Lo King Chiu Charles and Fung Kee Kue Roger are independent non-executive Directors. Chui Sai Cheong and Lo King Chiu Charles were re-appointed for a two-year term expiring on 13th December, 2006. Fung Kee Yue Roger was appointed for a two-year term expiring on 29th September, 2006.

Directors' service contracts

Monica Maria Nunes entered into a service contract with the Company on 10th February, 2004 for a term of one and a half years from 12th February, 2004 and such contract shall continue thereafter unless and until terminated by either the Company or Monica Maria Nunes giving to the other notice of not less than six months in writing to terminate the service contract. Pursuant to the service contract, she is entitled to a fixed monthly salary, Director's fee, additional thirteenth month salary and Director's fee and a discretionary year-end bonus. The amount payable under the service contract which is HK\$580,450 per annum, shall be reviewed annually by the remuneration committee of the Company at each financial year end. The aggregate amount of year-end bonuses payable to all the Directors shall not exceed 10% of the audited consolidated profit after taxation and minority interests but before extraordinary items in respect of the same financial year. The remuneration policy of the Company is based on that Director's experience, responsibility, workload and the time devoted to the Group.

Other than her directorship of the Company and apart from those as set out in this report, she is not connected with any Directors, senior management of the Company, Substantial or Controlling Shareholders.

REPORT OF THE DIRECTORS

Directors' interests in contracts

Details of José Manuel dos Santos' interest in contracts of significance in relation to the business of the Group are set out in note 32 to the accounts.

Save as disclosed herein, no contracts of significance in relation to the business of the Group to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Eighteen-Month Period or at any time during the Eighteen-Month Period.

Biographical details of Directors and senior management

Brief biographical details of Directors and senior management are set out on pages 14 to 17.

Directors' interests and short positions in Shares, underlying Shares and debentures of the Company or any Associated Corporations

As at 31st December, 2004, the relevant interests and short positions of the Directors or Chief Executive in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which will be required to be notified to the Company and the Exchange pursuant to divisions 7 and 8 or Part XV of the SFO (including interests and short positions which he took or deemed to have taken under such provisions of the SFO) or required pursuant to section 352 of the SFO, to be entered in the register referred to therein or required, pursuant to rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

REPORT OF THE DIRECTORS

Directors' interests and short positions in Shares, underlying Shares and debentures of the Company or any Associated Corporations (Continued)

Aggregate long and short positions in the Shares and (in respect of equity derivatives) underlying Shares

Name of Director	Long position/ short position	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of share options) held	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Long position	Corporate interest / founder of a discretionary trust (Note 1)	293,388,000	—	47.80%
	Long position	Personal (Note 2)	—	600,000	0.10%
	Short position	Corporate interest (Note 3)	—	14,466,000	2.36%
Yim Hong	Long position	Personal (Note 4)	7,357,500	900,000	1.35%
Kuan Kin Man	Long position	Personal (Note 5)	12,262,500	900,000	2.14%
Monica Maria Nunes	Long position	Personal (Note 6)	2,452,500	900,000	0.55%
Fung Kee Yue Roger	Long position	Personal (Note 7)	210,000	—	0.03%

Notes:

- (1) As at 31st December, 2004, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL, a company wholly-owned by José Manuel dos Santos as trustee of Santos' Family Trust.
- (2) The personal interest of José Manuel dos Santos comprised 600,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest is held by José Manuel dos Santos as beneficial owner.
- (3) Options were granted by the Company under a share option scheme. Since José Manuel dos Santos was interested in more than one-third of the issued share capital of the Company as at 31st December, 2004, he was deemed to have a short position in 14,466,000 underlying Shares.
- (4) The personal interest of Yim Hong comprised 7,357,500 Shares and 900,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest is held by Yim Hong as beneficial owner.
- (5) The personal interest of Kuan Kin Man comprised 12,262,500 Shares and 900,000 underlying Shares in respect of share options granted to him by the Company. The aforesaid interest is held by Kuan Kin Man as beneficial owner.
- (6) The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 900,000 underlying Shares in respect of share options granted to her by the Company. The aforesaid interest is held by Monica Maria Nunes as beneficial owner.
- (7) The personal interest of Fung Kee Yue Roger comprised 210,000 Shares. The aforesaid interest is held by Fung Kee Yue Roger as beneficial owner.

REPORT OF THE DIRECTORS

Substantial Shareholders' interest and short positions in the Shares and underlying Shares

As at 31st December, 2004, the following persons (other than a Director or Chief Executive) had interests and short positions in the Shares and underlying Shares which were recorded in the register required to be kept under section 336 of the SFO:

Aggregate long and short positions in the Shares and (in respect of equity derivatives) underlying Shares

Name	Long position/ short position	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of share options) held	Approximate % of the issued share capital of the Company
ERL	Long position	Corporate interest (Note 1)	293,388,000	—	47.80%
	Short position	Corporate interest (Note 2)	—	14,466,000	2.36%
LRL	Long position	Corporate interest (Note 1)	293,388,000	—	47.80%
	Short position	Corporate interest (Note 2)	—	14,466,000	2.36%
Lei Hon Kin (Note 3)	Long position	Family interest	293,988,000	—	47.89%
	Short position	Corporate interest	—	14,466,000	2.36%

Notes:

- (1) As at 31st December, 2004, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by LRL.
- (2) Options were granted by the Company under a share option scheme. Since both ERL and LRL were interested in more than one-third of the issued share capital of the Company as at 31st December, 2004, they were deemed to have a short position in 14,466,000 underlying Shares.
- (3) Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

The Agreement with covenants relating to specific performance by Controlling Shareholders

The loan of a principal amount of US\$15,000,000 (approximately HK\$116,700,000) is to be repaid by VHL in four equal half-yearly instalments of US\$3,750,000 (approximately HK\$29,175,000), due in March and September, 2005 and March and September, 2006 respectively. The first repayment was paid in March, 2005 and so the outstanding principal amount as at 31st March, 2005 was US\$11,250,000 (approximately HK\$87,525,000).

The purpose of the loan is for general corporate purposes and for general working capital. VHL may only drawdown the loan between the period commencing on and including the date of the Agreement and ending on the date six months thereafter. VHL shall repay the loan drawn down by four consecutive equal semi-annual instalments commencing on the date eighteen months after the date of the Agreement. Notwithstanding the above, all outstanding amount under the Agreement shall be repaid on the date thirty-six months after the date of the Agreement. The interest rate is London interbank offered rate plus 1.35%.

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

- (i) the trustee of Santos' Family Trust (being the Controlling Shareholder) shall at all times have as its trust assets, directly or indirectly, not less than 35% of each class of the issued voting share capital in the Company and that the service agreement between José Manuel dos Santos and the Company dated 10th February, 2004 is not amended or terminated without the prior written consent of the Agent; and
- (ii) the Santos' Family Trust shall not (whether by a single transaction or a number of related or unrelated transactions and whether at the same time or over a period of time) voluntarily dispose of more than 5% of its shareholdings in the Company without the prior written consent of the Lenders, the aggregate of whose participants exceeds 66²/₃% of the loan or if no advances have been made or are outstanding the aggregate of whose commitment exceed 66²/₃% of the undrawn balance of the commitment (such consent not to be unreasonably withheld or delayed).

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

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

Breach of the Agreement

The following financial covenants under the Guarantee will, inter alia, be breached upon publication of this report together with the audited accounts for the Eighteen-Month Period:

- (i) the consolidated tangible net worth of the Company as at 31st December, 2004 was less than HK\$380,000,000 as agreed with the Lenders;
- (ii) the total consolidated liabilities of the Company as at 31st December, 2004 was higher than 125% of the consolidated tangible net worth agreed with the Lenders;

REPORT OF THE DIRECTORS

Breach of the Agreement (Continued)

- (iii) the ratio of consolidated current assets of the Company to its consolidated current liabilities as at 31st December, 2004 was lower than the ratio of 1.6:1 as agreed with the Lenders; and
- (iv) the ratio of dividend payout to the profits according to the audited accounts for the Eighteen-Month Period was higher than the ratio of 50% as agreed with the Lenders.

The Company is in discussion with the Lenders as to whether the loan should be repaid prior to its term or if it could be refinanced. In any event and for the time being, the Company will, with the consensus of the Lenders, deposit an amount of US\$11,250,000 (approximately HK\$87,525,000) with the Agent pending the outcome of such discussions.

As at 31st March, 2005, the Group had bank balances and cash of approximately HK\$147,721,000 (excluding a US\$5,000,000 (approximately HK\$38,900,000) yield-enhanced bond) so that even after making the deposit to the Agent or making full repayment, the operations of the Group would not be materially and adversely affected.

This section is made pursuant to rule 17.21 of the GEM Listing Rules.

The Company will comply with its obligations under rule 17.23 of the GEM Listing Rules and make disclosure in its subsequent half-year, quarterly and annual reports for as long as the circumstances giving use to the disclosure obligations under rules 17.20 and 17.21 continue to exist.

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 Eighteen-Month Period.

Major customers and suppliers

During the Eighteen-Month Period, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods to its five largest customers.

Connected transactions

Significant related party transaction entered by the Group during the Eighteen-Month Period, which constituted exempted connected transactions under the GEM Listing Rules, are disclosed in notes 32a, b, and d to the accounts.

Board practices and procedures

Throughout the Eighteen-Month Period, the Company was in compliance with the board practices and procedures as set out in old rules 5.34 to 5.45 to the GEM Listing Rules, which were effective for accounting period commencing before 1st January, 2005.

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 HKICPA.

The principal activities of the Audit Committee include the review and supervision of the financial reporting process and internal controls of the Group. The Audit Committee comprises the three independent non-executive Directors namely, Chui Sai Cheong, Lo King Chiu Charles and Fung Kee Yue Roger. Six meetings were held during the Eighteen-Month Period.

Directors' interest in competing business

None of the Directors or any person who is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Group and which is (or are) able as a practical matter, to direct or influence the management of the Company has an interest in a business, which competes or may compete with the business of the Group.

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, 14th April, 2005

AUDITORS' REPORT

AUDITORS' REPORT TO THE SHAREHOLDERS OF VODATEL NETWORKS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 29 to 76 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 for the preparation of 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 Institute of Certified Public 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 the Group as at 31st December, 2004 and of the Group's loss and cash flows for the eighteen months ended 31st December, 2004 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 14th April, 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Eighteen-Month Period

	Note	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Turnover	3	589,883	388,794
Cost of sales		(551,922)	(301,986)
Gross profit		37,961	86,808
Other revenues	3	5,415	3,169
Other operating income		311	2,717
Selling expenses		(14,026)	(8,773)
Administrative expenses		(131,496)	(65,795)
Other operating expenses		(73,334)	(1,473)
Operating (loss)/profit	4	(175,169)	16,653
Deemed disposal gain from separate listing of MIHL	5	17,953	—
Impairment of goodwill	13	(25,931)	(840)
Finance costs	6	(4,346)	(635)
Share of losses of associated companies		(1,507)	(2,488)
(Loss)/profit before taxation		(189,000)	12,690
Taxation	7	(1,902)	(2,658)
(Loss)/profit after taxation		(190,902)	10,032
Minority interests		17,277	562
(Loss)/profit attributable to Members	8	(173,625)	10,594
Dividends	9	3,446	9,207
(Loss)/earnings per Share (HK cents)			
– Basic	10	(28.29)	1.74
– Diluted	10	Not applicable	1.74

CONSOLIDATED BALANCE SHEET

As at 31st December, 2004

	Note	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Non-current assets			
Intangible assets	13	67,898	1,302
Fixed assets	14	15,655	6,666
Investments in associated companies	16	1,630	5,257
Deposit on acquisition of subsidiaries	17	—	8,227
Non-trading securities	18	72,450	11,668
Current assets			
Inventories	19	47,592	139,573
Taxation prepaid		80	—
Trade and bills receivables	20	178,536	138,048
Other receivables, deposits and prepayments		32,499	17,495
Bank balances and cash	21	168,830	163,586
		427,537	458,702
Current liabilities			
Trade and bills payables	22	115,397	49,139
Other payables and accruals		84,426	24,215
Convertible bonds	23	—	9,725
Taxation payable		53,490	52,728
Short-term bank loans and overdrafts, unsecured	24	132,198	9,346
		385,511	145,153
Net current assets		42,026	313,549
Total assets less current liabilities		199,659	346,669
Financed by:			
Share capital	25	61,382	61,382
Reserves	26	111,331	276,003
Proposed dividends	26	—	3,069
Members' funds		172,713	340,454
Minority interests		12,092	6,215
Long-term loan	24	14,854	—
		199,659	346,669

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

BALANCE SHEET

As at 31st December, 2004

	Note	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Non-current assets			
Investments in subsidiaries	15	224,599	172,585
Current assets			
Dividends receivable		—	80,000
Other receivables, deposits and prepayments		802	70
Bank balances and cash		2,402	8,965
		<u>3,204</u>	<u>89,035</u>
Current liabilities			
Other payables and accruals		5,253	2,215
Convertible bonds	23	—	9,725
		<u>5,253</u>	<u>11,940</u>
Net current (liabilities)/assets		<u>(2,049)</u>	<u>77,095</u>
Total assets less current liabilities		<u>222,550</u>	<u>249,680</u>
Financed by:			
Share capital	25	61,382	61,382
Reserves	26	161,168	185,229
Proposed dividends		—	3,069
Members' funds		<u>222,550</u>	<u>249,680</u>

On behalf of the Board

José Manuel dos Santos
Director

Monica Maria Nunes
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Eighteen-Month Period

	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Total equity at the beginning of the Eighteen-Month Period/year	340,454	329,036
Issue of Shares	—	584
Share premium on issue of Shares	—	11,086
Surplus on revaluation of non-trading securities	5,516	114
Reserves transferred to profit and loss account upon disposal of a non-trading security	3,957	(1,900)
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	2,926	118
Net gains not recognised in the consolidated profit and loss account	12,399	10,002
	352,853	339,038
(Loss)/profit for the Eighteen-Month Period/year	(173,625)	10,594
Twelve months ended 30th June, 2002 final dividend paid	—	(3,040)
Twelve months ended 30th June, 2003 interim dividend paid	—	(6,138)
Twelve months ended 30th June, 2003 final dividend paid	(3,069)	—
Eighteen-Month Period interim dividend paid	(3,069)	—
Eighteen-Month Period special interim dividend paid	(377)	—
Total equity at the end of the Eighteen-Month Period/year	172,713	340,454

CONSOLIDATED CASH FLOW STATEMENT

For the Eighteen-Month Period

	Note	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Net cash outflow from operations	28(a)	(28,791)	(37,153)
Interest received		3,124	1,851
Interest paid		(4,346)	(635)
Taxation paid		(1,231)	(1,195)
Net cash outflow from operating activities		<u>(31,244)</u>	<u>(37,132)</u>
Investing activities			
Deposit on acquisition of subsidiaries		—	(8,227)
Dividends received from investments		112	650
Purchase of fixed assets		(11,507)	(5,767)
Purchase of intangible assets		(567)	—
Purchase of subsidiaries, net of cash acquired	28(b)	(26,724)	2,200
Purchase of additional interest in a subsidiary		—	(216)
Purchase of associated companies		(58)	—
Purchase of non-trading securities		(56,798)	(4,732)
Purchase of a trading security		(15,560)	—
Sale of non-trading securities		2,801	9,117
Sale of a trading security		15,871	—
Net cash outflow from investing activities		<u>(92,430)</u>	<u>(6,975)</u>
Net cash outflow before financing		(123,674)	(44,107)
Financing activities			
Dividend paid		(6,138)	(9,178)
Inception of bank loans		133,494	9,346
Issue costs of Shares of MIHL		(9,697)	—
Repayment of a bank loan		(9,346)	—
Redemption from issue of convertible bonds		(9,725)	(5,835)
Sales proceeds from separate listing of MIHL		30,093	—
Net cash inflow/ (outflow) from financing		<u>128,681</u>	<u>(5,667)</u>
Increase/(decrease) in cash and cash equivalents		5,007	(49,774)
Cash and cash equivalents at the beginning of the Eighteen-Month Period/year		163,586	213,360
Cash and cash equivalents at the end of the Eighteen-Month Period/year		<u>168,593</u>	<u>163,586</u>
Analysis of balances of cash and cash equivalents			
Bank balances and cash		168,830	163,586
Bank overdrafts		(237)	—
		<u>168,593</u>	<u>163,586</u>

NOTES TO THE ACCOUNTS

1 Change of financial year end date

In order to be coterminous with the financial year end date of the subsidiaries acquired during the Eighteen-Month Period and to realign the taxation year end of its subsidiaries, the financial year end date of the Company was changed from 30th June to 31st December. In consequence, the comparative amounts for the consolidated profit and loss account, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes to the accounts were not directly comparable.

2 Principal accounting policies

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

(a) Basis of preparation

The accounts were prepared in accordance with accounting principles generally accepted in Hong Kong and complied with accounting standards issued by the HKICPA. They were prepared under the historical cost convention except that non-trading securities were stated at fair value.

In the Eighteen-Month Period, the Group adopted SSAP 12 "Income taxes" issued by the HKICPA which was effective for accounting periods commencing on or after 1st January, 2003. The adoption of this new SSAP had no material impact on the results of the Group.

The HKICPA had issued a number of new and revised HKFRSs which were effective for accounting periods beginning on or after 1st January, 2005. The Group had not early adopted these new HKFRSs in the accounts for the Eighteen-Month Period. The Group had already commenced an assessment of the impact of these new HKFRSs but was not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts included the accounts of the Group made up to 31st December.

Subsidiaries were those entities in which the Company, directly or indirectly, controlled more than one half of the voting power; had 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 a majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the Eighteen-Month Period were 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 were eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represented the difference between the proceeds of the sale and the share of the Group 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 any related accumulated foreign currency translation reserve.

2 Principal accounting policies (Continued)

(b) Group accounting (Continued)

(i) Consolidation (Continued)

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

In the balance sheet of the Company, the investments in subsidiaries were stated at cost less provision for impairment losses. The results of subsidiaries were accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

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

The consolidated profit and loss account included the share of the Group of the results of associated companies for the Eighteen-Month Period, and the consolidated balance sheet included the share of the Group of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting was discontinued when the carrying amount of the investment in an associated company reached zero, unless the Group had incurred obligations or guaranteed obligations in respect of the associated company.

(iii) Translation of foreign currencies

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

The balance sheet of subsidiaries and associated companies expressed in foreign currencies were translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account was translated at an average rate. Exchange differences were dealt with as a movement in reserves.

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(c) Intangibles

(i) *Goodwill*

Goodwill represented the excess of the cost of an acquisition over the fair value of the share of the Group of the net assets of the acquired subsidiaries and associated companies at the date of acquisition.

Goodwill on acquisitions was included in intangible assets and was amortised using the straight-line method over its estimated useful life. Goodwill was generally amortised over ten years.

(ii) *Software licences*

Expenditure on acquired software licenses was capitalised and amortised using the straight-line method over their useful lives or licensing period, whichever was shorter.

(iii) *Research and development costs*

Research costs were expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products were recognised as an intangible asset where the technical feasibility and intention of completing the product under development had been demonstrated and the resources were available to do so, costs were identifiable and there was an ability to sell or use the asset that would generate probable future economic benefits. Such development costs were recognised as an asset and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits were recognised. Development costs that did not meet the above criteria were expensed as incurred. Development costs previously recognised as an expense were not recognised as an asset in a subsequent period.

(iv) *Impairment of intangible assets*

Where an indication of impairment existed, the carrying amount of any intangible asset was assessed and written down immediately to its recoverable amount.

2 Principal accounting policies (Continued)

(d) Fixed assets

(i) Land and buildings

Land and buildings were stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, furniture, fixtures, office equipment and leased equipment, motor vehicles and demonstration equipment were stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation

Fixed assets were depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates were as follows:

Land and buildings	5%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures, office equipment and leased equipment	20%-50%
Motor vehicles	20%
Demonstration equipment	33⅓%

Major costs incurred in restoring fixed assets to their normal working condition were charged to the profit and loss account.

Improvements were capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information were considered to assess whether there was any indication that assets included in land and buildings and other fixed assets were impaired. If any such indication existed, the recoverable amount of the asset was estimated and where relevant, an impairment loss was recognised to reduce the asset to its recoverable amount. Such impairment losses were recognised in the profit and loss account, except where the asset was carried at valuation and the impairment loss did not exceed the valuation surplus for the same asset, in which case it was treated as a revaluation decrease.

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

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(e) Operating leases

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

Assets leased out under operating leases were included in fixed assets in the balance sheet. They were depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income (net of any incentives given to lessees) was recognised on a straight-line basis over the lease terms.

(f) Investments in securities

(i) *Non-trading securities*

Investments which were held for non-trading purposes were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was 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, was dealt with in the profit and loss account.

Where there was objective evidence that individual investments were impaired, the cumulative loss recorded in the revaluation reserve was taken to the profit and loss account.

(ii) *Trading securities*

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the profit and loss account as they arose.

(g) Inventories

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

(h) Accounts receivable

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

(i) Cash and cash equivalents

Cash and cash equivalents were carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprised cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

2 Principal accounting policies (Continued)

(j) Provisions

Provisions were recognised when the Group had a present legal or constructive obligation as a result of past events, it was probable that an outflow of resources would be required to settle the obligation, and a reliable estimate of the amount could be made. Where the Group expected a provision to be reimbursed, the reimbursement was recognised as a separate asset but only when the reimbursement was virtually certain.

(k) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave were recognised when they accrued to employees. A provision was 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 were not recognised until the time of leave.

(ii) *Bonus*

The expected cost of bonus payments was recognised as a liability when the Group had a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation could be made.

Liabilities for bonus payments were expected to be settled within twelve months and were measured at the amounts expected to be paid when they were settled.

(iii) *Pension obligations*

The Group participated in defined contribution plans which were available to all qualified employees, the assets of which were held in separate trustee administered funds. The pension plans were funded by payments from employees and by the Group.

The contributions of the Group to the defined contribution retirement scheme were expensed as incurred.

(iv) *Equity compensation benefits*

Share options were granted to Directors and to employees at a price determined in accordance to the share option scheme of the Company on the date of the grant and were exercisable at that price, no compensation cost was recognised. When the options were exercised, the proceeds received net of any transaction costs were credited to share capital and share premium.

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(l) Deferred taxation

Deferred taxation was provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted on and before the balance sheet date were used to determine deferred taxation.

Deferred tax assets were recognised to the extent that it was probable that future taxable profit would be available against which the temporary differences could be utilised.

Deferred taxation was provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference could be controlled and it was probable that the temporary difference would not reverse in the foreseeable future.

(m) Contingent liabilities

A contingent liability was a possible obligation that arose from past events and whose existence would only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It could also be a present obligation arising from past events that was not recognised because it was not probable that outflow of economic resources would be required or the amount of obligation could not be measured reliably.

A contingent liability was not recognised but was disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow was probable, it would then be recognised as a provision.

(n) Revenue recognition

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

Revenue from the sale of goods was recognised on the transfer of risks and rewards of ownership, which generally coincided with the time when the goods were delivered to customers and the title had passed.

Revenue from the provision of digital image processing management solutions was recognised upon the transfer of risks and rewards of ownership, which generally coincided with the time when the goods were delivered to the customers and the title had passed.

Revenue from the provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS was recognised when the services were rendered.

Operating lease rental income was recognised on a straight-line basis.

Commission income and management fee income were recognised when the services were rendered.

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

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

2 Principal accounting policies (Continued)

(o) Borrowing costs

All borrowing costs were charged to the profit and loss account in which they were incurred.

(p) Segment reporting

In accordance with the internal financial reporting of the Group, it was determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represented corporate expenses. Segment assets consisted primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly excluded investments in associated companies and non-trading securities. Segment liabilities comprised operating liabilities and excluded items such as taxation and certain corporate borrowings. Capital expenditure comprised additions to intangible assets and fixed assets, including net additions resulting from acquisitions of subsidiaries.

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

(q) Comparative figures

Certain comparative figures had been reclassified to conform with the presentation of the Eighteen-Month Period.

NOTES TO THE ACCOUNTS

3 Turnover, revenues and segment information

The Group was principally engaged in the design, sale and implementation of data networking systems, provision of related engineering services and sale of goods, provision of digital image processing management solutions and multimedia value-added services via IVR, interactive internet solutions and premium SMS. Revenues recognised during the Eighteen-Month Period were as follows:

	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Turnover		
Design, sale and implementation of data networking systems and provision of related engineering services	502,441	321,453
Provision of digital image processing management solutions	17,694	—
Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS	39,850	—
Sale of goods	29,246	67,341
Operating lease rental income	652	—
	589,883	388,794
Other revenues		
Commission income	31	668
Dividend income from listed investments	112	650
Interest income	3,124	1,851
Management fee income	1,478	—
Others	670	—
	5,415	3,169
Total revenues	595,298	391,963

Due to the acquisition of TCM in Europe and the separate listing of MIHL, two more segments had arisen. For internal financial reporting purposes, management had changed certain segment reporting presentations. The major change was combining two similar segments (design, sale and implementation of data networking systems, provision of related engineering services and sale of goods) into one. The comparative figures had been restated to conform with the presentation of the Eighteen-Month Period.

Primary reporting format - business segments

The Group was organised into three main business segments:

- Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods;
- Provision of digital image processing management solutions; and
- Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS.

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

NOTES TO THE ACCOUNTS

3 Turnover, revenues and segment information (Continued)

Secondary reporting format - geographical segments

The three business segments were managed in three main geographical areas, namely Mainland China, Hong Kong and Macao, and Europe.

There were no sales between the geographical segments.

Primary reporting format - business segments

	Eighteen-Month Period			Group HK\$'000
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK\$'000	Provision of digital image processing management solutions HK\$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK\$'000	
Turnover	532,339	17,694	39,850	589,883
Segment results	(118,883)	(21,487)	(15,352)	(155,722)
Unallocated income				5,726
Unallocated cost				(25,173)
Operating loss				(175,169)
Deemed disposal gain from separate listing of MIHL				17,953
Impairment of goodwill	(7,780)	—	(18,151)	(25,931)
Finance costs				(4,346)
Share of losses of associated companies				(1,507)
Loss before taxation				(189,000)
Taxation				(1,902)
Loss after taxation				(190,902)
Minority interests				17,277
Loss attributable to Members				(173,625)

NOTES TO THE ACCOUNTS

3 Turnover, revenues and segment information (Continued)

Primary reporting format - business segments (Continued)

	Eighteen-Month Period			Group HK\$'000
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK\$'000	Provision of digital image processing management solutions HK\$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK\$'000	
Segment assets	373,725	19,124	112,826	505,675
Investments in associated companies				1,630
Unallocated assets				77,865
Total assets				<u>585,170</u>
Segment liabilities	172,133	4,879	70,814	247,826
Unallocated liabilities				164,631
Total liabilities				<u>412,457</u>
Capital expenditure	11,955	13,423	39,416	64,794
Depreciation	6,241	612	1,188	8,041
Amortisation	1,310	1,563	4,466	7,339
Impairment charge	10,015	9,900	18,151	38,066
Other non-cash expenses	100,816	—	—	100,816

NOTES TO THE ACCOUNTS

3 Turnover, revenues and segment information (Continued)

Primary reporting format - business segments (Continued)

	Twelve months ended 30th June, 2003			Group HK\$'000
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK\$'000	Provision of digital image processing management solutions HK\$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK\$'000	
Turnover	388,794	—	—	388,794
Segment results	28,408	—	—	28,408
Unallocated income				5,886
Unallocated cost				(17,641)
Operating profit				16,653
Impairment of goodwill	(840)	—	—	(840)
Finance costs				(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 Members				10,594

NOTES TO THE ACCOUNTS

3 Turnover, revenues and segment information (Continued)

Primary reporting format - business segments (Continued)

	Twelve months ended 30th June, 2003			Group HK\$'000
	Design, sale and implementation of data networking systems, provision of related engineering services and sale of goods HK\$'000	Provision of digital image processing management solutions HK\$'000	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS HK\$'000	
Segment assets	466,198	—	—	466,198
Investments in associated companies				5,257
Unallocated assets				20,367
Total assets				<u>491,822</u>
Segment liabilities	73,354	—	—	73,354
Unallocated liabilities				78,014
Total liabilities				<u>151,368</u>
Capital expenditure	8,353	—	—	8,353
Depreciation	2,503	—	—	2,503
Impairment charge	840	—	—	840
Other non-cash expenses	10,236	—	—	10,236
Unallocated non-cash expenses				176
Unallocated impairment charge				1,328

NOTES TO THE ACCOUNTS

3 Turnover, revenues and segment information (Continued)

Secondary reporting format – geographical segments

	Eighteen-Month Period			
	Turnover HK\$'000	Segment result HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Mainland China	400,906	(94,376)	193,929	1,368
Hong Kong and Macao	149,127	(45,993)	198,920	24,010
Europe	39,850	(15,353)	112,826	39,416
	<u>589,883</u>	<u>(155,722)</u>	<u>505,675</u>	<u>64,794</u>
Unallocated income		5,726		
Unallocated cost		(25,173)		
Operating loss		<u>(175,169)</u>		
Investments in associated companies			1,630	
Unallocated assets			<u>77,865</u>	
Total assets			<u>585,170</u>	

	Twelve months ended 30th June, 2003			
	Turnover HK\$'000	Segment result HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Mainland China	334,641	27,863	246,906	3,408
Hong Kong and Macao	54,153	545	219,292	4,945
Europe	—	—	—	—
	<u>388,794</u>	<u>28,408</u>	<u>466,198</u>	<u>8,353</u>
Unallocated income		5,886		
Unallocated cost		(17,641)		
Operating profit		<u>16,653</u>		
Investments in associated companies			5,257	
Unallocated assets			<u>20,367</u>	
Total assets			<u>491,822</u>	

NOTES TO THE ACCOUNTS

4 Operating (loss)/profit

Operating (loss)/profit was stated after crediting and charging the following:

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Crediting		
Realised gain on disposal of a trading security	311	—
Realised gain on disposal of a non-trading security	—	2,717
Charging		
Amortisation of goodwill	5,506	145
Amortisation of software licences	1,833	—
Auditors' remuneration	5,378	1,217
Cost of inventories	439,452	272,614
Depreciation of fixed assets	8,041	2,503
Directors' and senior management's emoluments (Note 12)	12,975	8,233
Impairment of a software licence	9,900	—
Impairment of a non-trading security	—	1,328
Impairment of investment in an associated company	2,235	—
Loss on disposal of fixed assets	390	8
Loss on disposal of non-trading securities	2,690	—
Net exchange loss	199	224
Operating leases		
- land and buildings	6,046	2,792
- motor vehicles	244	—
Provision for advance to an associated company	—	168
Provision for doubtful debts	51,170	—
Research and development costs	1,439	116
Staff costs (excluding Directors' emoluments) (Note 11)	57,631	19,838
Write-down of inventories to net realisable value	49,646	10,236

5 Deemed disposal gain for separate listing of MIHL

On 19th January, 2004, Shares of MIHL were listed and traded on GEM by the issue of new Shares of MIHL. As a result, the shareholding of the Company in MIHL had been diluted to 61.05%, which resulted in a gain of approximately HK\$17,953,000 arising from this deemed disposal.

NOTES TO THE ACCOUNTS

6 Finance costs

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Interest on bank loans and overdrafts		
– wholly repayable within five years	3,073	—
Interest on other loan		
– wholly repayable within five years	1,087	—
Interest on convertible bonds	186	635
	<u>4,346</u>	<u>635</u>

7 Taxation

Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profit for the Eighteen-Month Period. In 2003, the Government of Hong Kong enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profit had been calculated on the estimated assessable profit for the Eighteen-Month Period at the rates of taxation prevailing in the regions in which the Group operated.

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

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Current taxation		
- Hong Kong profits tax	126	—
- Macao complementary profits tax	26	2,392
- Mainland China profits tax	1,600	266
- Overseas taxation	29	—
- Under-provision in prior years	117	—
	<u>1,898</u>	<u>2,658</u>
Share of taxation attributable to associated companies	4	—
Taxation charge	<u>1,902</u>	<u>2,658</u>

NOTES TO THE ACCOUNTS

7 Taxation (Continued)

Taxation on (loss)/profit before taxation of the Group differed from the theoretical amount that would arise using the taxation rate of the region of the Group and was as follows:

	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
(Loss)/ profit before taxation	(189,000)	12,690
Notional tax calculated at the rates applicable in the regions concerned	(35,497)	1,479
Income not subject to taxation	28,465	(1,109)
Expenses not deductible for taxation purposes	8,553	2,288
Mainland China deemed income tax	260	—
Share of taxation of associated companies	4	—
Under-provision in prior years	117	—
Taxation charge	<u>1,902</u>	<u>2,658</u>

8 Loss attributable to Members

Loss attributable to Members was dealt with in the accounts of the Company to the extent of HK\$20,776,000 (twelve months ended 30th June, 2003: profit of HK\$12,333,000).

9 Dividends

	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Interim, paid for Eighteen-Month Period, of HK\$0.005 (twelve months ended 30th June, 2003: HK\$0.01) per Share	3,069	6,138
Special interim, paid for Eighteen-Month Period (Note)	377	—
Final, proposed for Eighteen-Month Period, of HK\$Nil (twelve months ended 30th June, 2003: HK\$0.005) per Share	—	3,069
	<u>3,446</u>	<u>9,207</u>

Note:

On 19th December, 2003, the Board approved the payment of a special interim dividend as part of the proposal for the separate listing of MIHL by way of a distribution in specie in respect of an aggregate of 13,375,000 Shares of MIHL to Members, where every 46 Shares were entitled to 1 Share of MIHL.

The Directors do not recommend the payment of a final dividend.

10 (Loss)/earnings per Share

The calculation of basic loss per Share was based on the loss of the Group attributable to Members of HK\$173,625,000 (twelve months ended 30th June, 2003: profit of HK\$10,594,000) and the weighted average number of 613,819,000 Shares (twelve months ended 30th June, 2003: 609,966,301 Shares) in issue during the Eighteen-Month Period.

No diluted earnings per Share for the Eighteen-Month Period was presented as the exercise of the outstanding share options of the Company would have an anti-dilutive effect. The weighted average of 609,969,068 Shares of last year included all share options outstanding, except for share options having anti-dilutive effect, on the assumption that all share options had been converted. All convertible bonds in last year had been excluded as having anti-dilutive effect.

11 Staff costs

	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Wages and salaries	53,922	18,394
Unutilised annual leave	(380)	262
Social security costs (Note (a))	1,669	100
Termination benefits	86	221
Pension costs - defined contribution plan (Note (b))	1,629	861
Long service payment	705	—
	57,631	19,838

Notes:

- (a) The Group participated in employee social security plans as required by the regulations in Mainland China, Macao and Europe. The amount charged to the profit and loss account represented contributions payable by the Group at rates specified in the rules of the plans.
- (b) A mandatory provident fund scheme had been set up for all the eligible employees of the Group in Hong Kong. The mandatory provident fund scheme was a defined contribution retirement scheme and contributions to the fund by the Group and employees were calculated as a percentage of the employees' basic salaries.

NOTES TO THE ACCOUNTS

12 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to the Directors during the Eighteen-Month Period were as follows:

	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Fees	1,483	760
Other emoluments		
- Basic salaries and allowances	10,473	6,449
- Discretionary bonuses	983	1,000
- Contributions to pension schemes	36	24
	12,975	8,233

Directors' fees disclosed above included approximately HK\$423,000 (twelve months ended 30th June, 2003: HK\$240,000) paid to independent non-executive Directors.

The executive Directors received/would receive individual emoluments for the Eighteen-Month Period of approximately HK\$6,807,000 (twelve months ended 30th June, 2003: HK\$4,133,000), HK\$3,022,000 (twelve months ended 30th June, 2003: HK\$1,994,000), HK\$1,612,000 (twelve months ended 30th June, 2003: HK\$1,081,000) and HK\$1,111,000 (twelve months ended 30th June, 2003: HK\$785,000).

No Directors waived or agreed to waive any of their emoluments in respect of the Eighteen-Month Period and the twelve months ended 30th June, 2003.

12 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 Eighteen-Month Period included three (twelve months ended 30th June, 2003: four) Directors whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining two (twelve months ended 30th June, 2003: one) individuals during the Eighteen-Month Period were as follows:

	Eighteen-Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Basic salaries and allowances	1,855	558
Discretionary bonuses	871	515
Contributions to pension schemes	18	—
	<u>2,744</u>	<u>1,073</u>

The emoluments fell within the following band:

Emolument band	Number of individuals	
	Eighteen-Month Period	Twelve months ended 30th June, 2003
HK\$1,000,000 - HK\$1,500,000	<u>2</u>	<u>1</u>

During the Eighteen-Month Period, no emoluments had 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.

NOTES TO THE ACCOUNTS

13 Intangible assets

	Group		
	Goodwill HK\$'000	Software licence HK\$'000	Total HK\$'000
Eighteen-Month Period			
Opening net book amount	1,302	—	1,302
Purchase of software licences	—	11,567	11,567
Acquisition of subsidiaries (Note 28(b))	89,507	1,492	90,999
Impairment charge (Note)	(25,931)	(9,900)	(35,831)
Amortisation charge	(5,506)	(1,833)	(7,339)
Exchange differences	7,047	153	7,200
Closing net book amount	<u>66,419</u>	<u>1,479</u>	<u>67,898</u>
As at 31st December, 2004			
Cost	99,507	20,877	120,384
Accumulated amortisation and impairment losses	<u>(33,088)</u>	<u>(19,398)</u>	<u>(52,486)</u>
Net book amount	<u>66,419</u>	<u>1,479</u>	<u>67,898</u>
As at 30th June, 2003			
Cost	2,287	—	2,287
Accumulated amortisation and impairment losses	<u>(985)</u>	<u>—</u>	<u>(985)</u>
Net book amount	<u>1,302</u>	<u>—</u>	<u>1,302</u>

Note:

Impairment charges for goodwill arising on acquisition of certain subsidiaries had been made in the accounts since future economic benefits attributable to the goodwill were forecast to be lower than the carrying amount. The goodwill belonged to the segments of (i) design, sale and implementation of data networking systems, provision of related engineering services and sale of goods; and (ii) provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS.

The impairment charge for the software licence acquired from independent third parties in December, 2003 for the development of certain enterprise resources planning software had been made in the accounts since future economic benefits attributable to this licence were uncertain. The software licence belonged to the segment of provision of digital image processing management solutions.

NOTES TO THE ACCOUNTS

14 Fixed assets

	Group					
	Land and buildings outside Hong Kong HK\$'000	Leasehold improvements HK\$'000	Furniture, fixture, office equipment and leased equipment HK\$'000	Motor vehicles HK\$'000	Demonstration equipment HK\$'000	Total HK\$'000
Cost						
As at 1st July, 2003	—	3,899	10,453	2,333	1,401	18,086
Additions	—	2,013	9,141	143	210	11,507
Acquisition of subsidiaries (Note 28(b))	2,300	51	37,217	379	281	40,228
Disposals	—	(923)	(3,800)	—	(1,401)	(6,124)
Exchange differences	—	—	4,298	40	—	4,338
As at 31st December, 2004	<u>2,300</u>	<u>5,040</u>	<u>57,309</u>	<u>2,895</u>	<u>491</u>	<u>68,035</u>
Accumulated depreciation						
As at 1st July, 2003	—	2,642	6,206	1,189	1,383	11,420
Charge for the Eighteen-Month Period	38	1,134	5,886	674	309	8,041
Acquisition of subsidiaries (Note 28(b))	—	—	34,397	190	—	34,587
Disposals	—	(923)	(3,410)	—	(1,401)	(5,734)
Exchange differences	—	—	4,041	25	—	4,066
As at 31st December, 2004	<u>38</u>	<u>2,853</u>	<u>47,120</u>	<u>2,078</u>	<u>291</u>	<u>52,380</u>
Net book value						
As at 31st December, 2004	<u>2,262</u>	<u>2,187</u>	<u>10,189</u>	<u>817</u>	<u>200</u>	<u>15,655</u>
As at 30th June, 2003	<u>—</u>	<u>1,257</u>	<u>4,247</u>	<u>1,144</u>	<u>18</u>	<u>6,666</u>

As at 31st December, 2004, the gross carrying amount of the leased equipment was approximately HK\$5,459,000. The accumulated depreciation and depreciation charge for the Eighteen-Month Period were approximately HK\$1,213,000.

NOTES TO THE ACCOUNTS

15 Investments in subsidiaries - Company

	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Investments, at cost, unlisted (Note (a))	73,918	73,918
Due from subsidiaries (Note (b))	152,576	100,187
Due to subsidiaries (Note (b))	(1,895)	(1,520)
	224,599	172,585

(a) The following was a list of the subsidiaries as at 31st December, 2004:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
泰思通軟件（上海）有限公司 （“TSTSH”） （Note (i)）	PRC	Research and development of software and related software consultancy services in Mainland China	US\$510,000	83%
珠海萬佳達軟件開發有限公司 （“ZMSD”） （Note(i)）	PRC	Provision of computer software products, computer network system engineering, research and development and sale and provision of related services and maintenance in Mainland China	HK\$1,000,000	61%
廣州市萬珈訊科技 有限公司 （Note(i)）	PRC	Provision of computer software products, computer network system engineering, research and development and sale and provision of related services and maintenance in Mainland China	HK\$1,600,000	61%

NOTES TO THE ACCOUNTS

15 Investments in subsidiaries - Company (Continued)

(a) The following was a list of the subsidiaries as at 31st December, 2004: (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
廣州市愛達利發展有限公司 ("GVDL") (Note (i))	PRC	Design, sale and implementation of data networking systems and provision of related engineering services in Mainland China	RMB3,000,000	54%
廣州市圖文資訊有限公司 ("GZIC") (Note (i))	PRC	Provision of internet related data services in Mainland China	RMB1,000,000	44% (Note (ii))
廣州愛達利科技有限公司 (Note (i))	PRC	Design, sale and implementation of data networking systems and provision of related engineering services in Mainland China	RMB3,000,000	100%
Capital Instant Limited	BVI	Investment holding in BVI	1,000 ordinary shares of US\$1 each	91%
Communications Appliances Ou Chung Limited	Macao	Sale of mobile phones in Macao	MOP3,002,000	100%
Compañía Hispanoholandesa de Audiotex, S.L. (Note (i))	Spain	Dormant	500 ordinary registered shares of €6.01 each	60%
Guangzhou Thinker Vodatel Development Company Limited (Note (i))	PRC	Research and development of wireless data communications and internet related products in Mainland China	US\$3,000,000	60%
Mediatel Finland Oy (Note (i))	Finland	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in Finland	100 shares of €192.86 each	60%

NOTES TO THE ACCOUNTS

15 Investments in subsidiaries - Company (Continued)

(a) The following was a list of the subsidiaries as at 31st December, 2004: (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
Mega Datatech Limited (Note (i))	Macao	Provision of computer software, hardware and system integration in Macao	MOP100,000	100%
MegalInfo China Holdings Limited	BVI	Investment holding in Mainland China	1,000 ordinary shares of US\$1 each	61%
MegalInfo Holdings Limited	Bermuda	Investment holding in Hong Kong	535,000,000 ordinary shares of HK\$0.01 each	61%
MegalInfo Limited	BVI	Investment holding and provision of digital image processing management solutions in Macao	2,000 ordinary shares of US\$1 each	61%
MegalInfo Software Limited	BVI	Owner of intellectual property rights in Macao	1,000 ordinary shares of US\$1 each	61%
MegalInfo Solutions Holdings Limited	BVI	Owner of intellectual property rights in Mainland China	1,000 ordinary shares of US\$1 each	61%
MegalInfo Technology Limited (formerly known as Eagle Insight Limited)	Hong Kong	Investment holding in Macao	1,000 ordinary shares of HK\$1 each	61%
MegalInfo (Hong Kong) Limited	Hong Kong	Investment holding in Mainland China and Macao	1,000 ordinary shares of HK\$0.10 each	61%
Ou Chung Company Limited	Hong Kong	Investment holding in Macao	1 ordinary share of HK\$1 each	100%
PE Research and Development Limited	Macao	Investment holding in Mainland China	MOP25,000	61%
Power Express (Macao) Limited	Macao	Sale of communications equipment in Macao	MOP25,000	100%

NOTES TO THE ACCOUNTS

15 Investments in subsidiaries - Company (Continued)

(a) The following was a list of the subsidiaries as at 31st December, 2004: (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
Servicios Telefónicos de Audiotex SA (Note (i))	Spain	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in Spain	150,000 ordinary registered shares of €6.01021 each	60%
SuperCom GmbH (Note (i))	Germany	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in Germany	DM25,000	60%
TeleConcept Multimedia B.V. (Note (i))	The Netherlands	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in the Netherlands	1,800 ordinary shares of €10 each	60%
Teleconcept-Multimedia N.V. (Note (i))	The Netherlands	Investment holding in Finland, Germany, the Netherlands and Spain	11,250,000 ordinary shares of €0.01 each	60%
Telefonía Inteligente Española, S.L. (Note (i))	Spain	Dormant	500 ordinary registered shares of €6.01021 each	60%
Tel-More Productions Oy (Note (i))	Finland	Provision of multimedia value-added services via IVR, interactive internet solutions and premium SMS in Finland	100 ordinary shares of €500 each	60%
Tidestone Science and Technology (Hong Kong) Company Limited	Hong Kong	Investment holding in Mainland China	1,000 ordinary shares of HK\$1 each	83%

NOTES TO THE ACCOUNTS

15 Investments in subsidiaries - Company (Continued)

(a) The following was a list of the subsidiaries as at 31st December, 2004: (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
VDT Data Holdings Limited	BVI	Investment holding in BVI	1,000 ordinary shares of US\$1 each	100%
VDT Mobile Holdings Limited	BVI	Investment holding in BVI	1,000 ordinary shares of US\$1 each	100%
VDT Operator Holdings Limited (formerly known as Vodatel Hong Kong Holdings Limited)	BVI	Investment holding in BVI	1,000 ordinary shares of US\$1 each	100%
Vodatel China Holdings Limited	BVI	Investment holding in BVI	1,000 ordinary shares of US\$1 each	100%
Vodatel China Investments Limited (formerly known as America Limited)	Hong Kong	Investment holding in Mainland China	1 ordinary share of HK\$1 each	100%
Vodatel China Limited	BVI	Investment holding in Mainland China	1,000 ordinary shares of US\$1 each	100%
Vodatel Data Limited	BVI	Investment holding in BVI	1,000 ordinary shares of US\$1 each	100%
Vodatel Development Limited	Hong Kong	Dormant	1,000 ordinary shares of HK\$1 each	100%
Vodatel Holdings Limited	BVI	Investment holding and design, sale and implementation of data networking systems and provision of related engineering services in Macao	10,000 ordinary shares of US\$1 each	100% [†]
Vodatel Hong Kong Limited	Hong Kong	Investment holding in Macao	1,000 ordinary shares of HK\$1 each	100%
Vodatel Information Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US\$1 each	100%
Vodatel Integrated Solutions Limited	BVI	Dormant	1 ordinary share of US\$1 each	100%

15 Investments in subsidiaries - Company (Continued)

(a) The following was a list of the subsidiaries as at 31st December, 2004: (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered share capital	Approximate effective interest held
Vodatel International Holdings Limited	BVI	Investment holding in the Netherlands	1,000 ordinary shares of US\$1 each	100%
Vodatel Macao Holdings Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US\$1 each	100%
Vodatel Networks Limited	BVI	Investment holding in Mainland China	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 in Hong Kong	2 ordinary shares of HK\$1 each	100%
Vodatel Software Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US\$1 each	100%
Vodatel Systems Inc.	BVI	Design, sale and implementation of data networking systems and provision of related engineering services in Macao	1,000 ordinary shares of US\$1 each	100%
Vodatel Systems Inc. - Macao Commercial Offshore (Note (i))	Macao	Dormant	MOP100,000	100%
Vodatel Systems (HK) Limited	BVI	Provision of warehouse services in Hong Kong	1,000 ordinary shares of US\$1 each	100%
Vodatel Systems (Macao) Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US\$1 each	100%
Vodatel Technology Limited	BVI	Owner of intellectual property rights and trade marks in PRC	1,000 ordinary shares of US\$1 each	100%
Voxel Finland Oy (Note (i))	Finland	Investment holding in Finland	200 shares of €50 each	60%

* Share held directly by the Company

All subsidiaries were limited liability companies.

Notes:

- (i) Subsidiaries of which PricewaterhouseCoopers were not the statutory auditors. The aggregate net assets of these subsidiaries amounted to approximately 16.60% of the net assets of the Group.
- (ii) GVDL held 81.82% interest directly in GZIC.

NOTES TO THE ACCOUNTS

15 Investments in subsidiaries - Company (Continued)

- (b) The amounts due from/to subsidiaries were unsecured, interest-free with no fixed terms of repayment.
- (c) On 22nd September, 2003, the Group acquired approximately 61% interests in PERDL and ZMSD for HK\$1,000,000, satisfied in cash. As a result, the loss of the Group for the Eighteen-Month Period and the net assets as at 31st December, 2004 had increased and decreased by approximately HK\$1,879,000 respectively.
- (d) On 22nd September, 2003, the Group acquired 100% interests in PEML for approximately HK\$7,227,000, satisfied in cash. As a result, the loss of the Group for the Eighteen-Month Period and the net assets as at 31st December, 2004 had increased and decreased by approximately HK\$953,000 respectively.
- (e) On 9th July, 2004, the Group acquired 60% interests in TCM and its subsidiaries, namely STASA, VFO, SGMBH, TMBV, CHASL, TIESL, MFO and TMPO for €2,300,000 (approximately HK\$22,996,000), satisfied in cash. As a result, the loss of the Group for the Eighteen-Month Period and the net assets as at 31st December, 2004 had increased and decreased by approximately HK\$19,246,000 respectively.
- (f) On 1st September, 2004, the Group acquired 100% interests in CAOCL for MOP5,800,000 (approximately HK\$5,631,000), satisfied in cash. As a result, the loss of the Group for the Eighteen-Month Period and the net assets as at 31st December, 2004 had increased and decreased by approximately HK\$1,751,000 respectively.

NOTES TO THE ACCOUNTS

16 Investments in associated companies

	Group	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Share of net assets, less impairment (Note (a))	1,630	5,257
Advance to an associated company (Note (b))	3,164	3,164
	4,794	8,421
Less: provision for advance to an associated company (Note (b))	(3,164)	(3,164)
	1,630	5,257
Unlisted shares, at cost	37,341	37,283

(a) The following was a list of the associated companies as at 31st December, 2004:

Name	Place of incorporation/ establishment and operation	Principal activities	Particulars of issued/registered capital held	Approximate effective interest held indirectly
Crossland Business Solution Limited	Hong Kong	Dormant	100 ordinary shares of HK\$1 each	40%
CTM-Mega Technology Limited	Macao	Provision of information technology services and equipment	MOP30,000	30%
Guangzhou LG TOPS Communication Technologies Co., Ltd.	PRC	Research and development of wireless data communications and internet related products	US\$6,000,000	12% (note (i))
Oriental Skill Limited	Hong Kong	Dormant	10 ordinary shares of HK\$1 each	40%
Source Tech Limited	Macao	Provision of consultancy services	MOP100,000	45%
Vcshare Online Limited	Hong Kong	Dormant	1,000,000 ordinary shares of HK\$1 each	40%
Vodatel Crossland Technology Holdings Limited	BVI	Investment holding	1,000 ordinary shares of US\$1 each	40%

Note:

(i) GTVD held 20% interest directly in GLGTCT.

(b) Advance to an associated company was unsecured, interest-free with no fixed term of repayment. The advance was fully provided for.

NOTES TO THE ACCOUNTS

17 Deposit on acquisition of subsidiaries

This amount as at 30th June, 2003 represented deposit made to independent third parties for the acquisition of shareholding in PEML and PERDL.

18 Non-trading securities

	Group	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Equity securities:		
Listed in Hong Kong	19,172	3,694
Listed outside Hong Kong	—	1,533
Market value of listed equity securities	19,172	5,227
Unlisted equity securities	48,526	7,843
Less: impairment charge	(3,002)	(3,002)
	64,696	10,068
Convertible notes, unlisted (Note)	7,754	1,600
	72,450	11,668

Note:

The convertible notes bore interest at 1% per annum on the principal amount of the notes outstanding from time to time payable half yearly in arrears on 31st March and 30th September in each year. The Company had the right to convert the whole (or part) of the principal amount of the notes into fully-paid ordinary shares of the issuer of the notes at initial conversion prices specified in the subscription agreement dated 28th March, 2002 and 3rd August, 2002 respectively.

19 Inventories

	Group	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Networking and system equipment	107,896	153,138
Mobile phones	2,907	—
Less: provision	(63,211)	(13,565)
	47,592	139,573

As at 31st December, 2004, the carrying amount of inventories that were carried at net realisable value amounted to HK\$11,889,000 (30th June, 2003: HK\$23,173,000).

20 Trade and bills receivables

The credit terms granted to customers varied and were generally the result of negotiations between individual customers and the Group. Customers were generally required to pay at various intervals over the life of the projects. As at 31st December, 2004, the ageing analysis of the trade and bills receivables were as follows:

	Group	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Within three months	143,579	42,985
Four to six months	20,544	19,479
Seven to twelve months	23,718	54,437
Over twelve months	77,398	43,089
	<u>265,239</u>	<u>159,990</u>
Less: provision	(86,703)	(21,942)
	<u>178,536</u>	<u>138,048</u>

21 Bank balances and cash

Included in bank balances and cash of the Group was RMB27,131,000 (approximately HK\$25,356,000) (2003: RMB16,909,000 (approximately HK\$15,803,000)) which represented bank balances denominated in RMB and were placed with banks in Mainland China. RMB is not a freely convertible currency.

22 Trade and bills payables

As at 31st December, 2004, the ageing analysis of the trade and bills payables were as follows:

	Group	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Within three months	76,012	39,129
Four to six months	13,645	2,536
Seven to twelve months	6,961	1,729
Over twelve months	18,779	5,745
	<u>115,397</u>	<u>49,139</u>

Included in trade and bills payables was HK\$358,000, which was due to a related company owned by José Manuel dos Santos, a Director. The amount was unsecured, interest-free with no fixed term of repayment.

NOTES TO THE ACCOUNTS

23 Convertible bonds

	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Convertible bonds	—	9,725
Less: current portion	—	(9,725)
	<u>—</u>	<u>—</u>

On 14th April, 2004, the Company redeemed the convertible bonds in cash with aggregate principal amount of US\$1,250,000 (approximately HK\$9,725,000).

24 Bank loans, overdrafts and other loan

	Group	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Bank loans and overdrafts, unsecured (Note (a))	132,198	9,346
Other loan, unsecured (Note (b))	14,854	—
	<u>147,052</u>	<u>9,346</u>

As at 31st December, 2004, the bank loans, overdrafts and other loan of the Group were repayable as follows:

	Bank loans and overdrafts		Other loan	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Within one year	132,198	9,346	—	—
In the second year	—	—	14,854	—
	<u>132,198</u>	<u>9,346</u>	<u>14,854</u>	<u>—</u>

24 Bank loans, overdrafts and other loan (Continued)

Notes:

- (a) Included in bank loans and overdraft was a loan of a principal amount of US\$15,000,000 (approximately HK\$116,700,000) which was to be repaid by VHL in four equal half-yearly instalments of US\$3,750,000 (approximately HK\$29,175,000), due in March and September, 2005 and March and September, 2006 respectively.

Pursuant to the announcement of its results for the Eighteen-Month Period, the Company recognised breaches of certain financial covenants under the Agreement. Accordingly, the whole bank loan had been reclassified under current liabilities. The Company is in discussion with the Lenders as to whether the loan should be repaid prior to its term or if it could be refinanced. In any event and for the time being, the Company will, with the consensus of the Lenders, deposit an amount of US\$11,250,000 (approximately HK\$87,525,000) with the Agent pending the outcome of such discussions.

- (b) The other loan is interest-bearing at 8% per annum and repayable in March, 2006.

25 Share capital

	Number of Shares	HK\$'000
Authorised		
As at 30th June, 2002, 2003 and 31st December, 2004	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid		
As at 1st July, 2002	607,984,000	60,798
Issue of shares (Note)	<u>5,835,000</u>	<u>584</u>
As at 30th June, 2003 and 31st December, 2004	<u>613,819,000</u>	<u>61,382</u>

Note:

In February, 2003, the Company exercised the rights of conversion of a convertible bond in the aggregate principal amount of US\$1,500,000 (approximately HK\$11,670,000). The convertible bond was converted into 5,835,000 Shares, representing approximately 1% of the enlarged issued share capital of the Company.

NOTES TO THE ACCOUNTS

25 Share capital (Continued)

Share options

Pursuant to a special general meeting of the Company held on 5th November, 2002, the share option scheme adopted by the Company on 10th February, 2000 was terminated and a new share option scheme was approved and adopted. Under the new share option scheme approved by the Members, the Directors may, at their discretion, invite full-time employees including executive Directors to take up options to subscribe for the Shares 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). A nominal consideration at HK\$1 was paid by the employees for each lot of share options granted. Share options can be exercised immediately after the date of grant and before the expiry date.

Movements in the number of share options outstanding during the Eighteen-Month Period were as follows:

	Number of options	
	Eighteen-Month Period	Twelve months ended 30th June, 2003
At the beginning of the Eighteen-Month Period/year	17,138,000	19,092,000
Granted	—	17,138,000
Lapsed*	(2,672,000)	(1,914,000)
Cancelled	—	(17,178,000)
At the end of the Eighteen-Month Period/year	<u>14,466,000</u>	<u>17,138,000</u>

* Options lapsed by reason of the grantees ceasing to be full-time employees of the Group.

Share options outstanding as at 31st December, 2004 were granted on 30th June, 2003 and exercisable from 30th June, 2003 until 29th June, 2006 at HK\$0.42 per Share.

No share options were cancelled during the Eighteen-Month Period.

NOTES TO THE ACCOUNTS

26 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	Statutory reserve HK\$'000 (Note (b))	Retained earnings/ (accumulated losses) HK\$'000	
As at 1st July, 2003	97,676	702	(4,158)	35,549	108	49	149,146	279,072
Surplus on revaluation of non-trading securities	—	—	5,516	—	—	—	—	5,516
Reserves transferred to profit and loss account upon disposal of non-trading securities	—	—	3,957	—	—	—	—	3,957
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	—	—	—	—	2,926	—	—	2,926
Loss attributable to Members	—	—	—	—	—	—	(173,625)	(173,625)
Twelve months ended 30th June, 2003								
final dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
Eighteen-Month Period interim dividend paid	—	—	—	—	—	—	(3,069)	(3,069)
Eighteen-Month Period special interim dividend paid	—	—	—	—	—	—	(377)	(377)
As at 31st December, 2004	<u>97,676</u>	<u>702</u>	<u>5,315</u>	<u>35,549</u>	<u>3,034</u>	<u>49</u>	<u>(30,994)</u>	<u>111,331</u>
Company and subsidiaries	97,676	702	5,315	35,549	3,034	49	(23,614)	118,711
Associated companies	—	—	—	—	—	—	(7,380)	(7,380)
As at 31st December, 2004	<u>97,676</u>	<u>702</u>	<u>5,315</u>	<u>35,549</u>	<u>3,034</u>	<u>49</u>	<u>(30,994)</u>	<u>111,331</u>

NOTES TO THE ACCOUNTS

26 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	
As at 1st July, 2002	86,590	702	(2,372)	35,549	(10)	—	147,779	268,238
Issue of Shares (Note 25)	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 the accounts of foreign subsidiaries and associated companies	—	—	—	—	118	—	—	118
Provision for Macao statutory reserve	—	—	—	—	—	49	(49)	—
Profit attributable to Members	—	—	—	—	—	—	10,594	10,594
Twelve months ended 30th June, 2002 final dividend paid	—	—	—	—	—	—	(3,040)	(3,040)
Twelve months ended 30th June, 2003 interim dividend paid	—	—	—	—	—	—	(6,138)	(6,138)
As 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:								
Twelve months ended 30th June, 2003 final dividend proposed								3,069
Reserves as 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)
As 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:

- The merger reserve of the Group included the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the Shares in exchange thereof and also an existing balance on the share premium account of a subsidiary.
- The Macao Commercial Code required a company incorporated in Macao to set aside a minimum of 25% of the profit after taxation to the statutory reserve each financial year until the balance of the reserve reached a level equivalent to 50% of the capital of the company. Statutory reserve represented amount set aside from the profit and loss account and was not distributable to Members.

NOTES TO THE ACCOUNTS

26 Reserves (Continued)

	Company				
	Share premium HK\$'000	Contributed surplus HK\$'000 (Note (a))	Capital redemption reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
As at 1st July, 2003	97,676	73,718	702	16,202	188,298
Loss attributable to Members Twelve months ended 30th June, 2003	—	—	—	(20,776)	(20,776)
final dividend paid	—	—	—	(3,069)	(3,069)
Eighteen-Month Period interim dividend paid	—	—	—	(3,069)	(3,069)
Eighteen-Month Period special interim dividend paid	—	—	—	(216)	(216)
As at 31st December, 2004	<u>97,676</u>	<u>73,718</u>	<u>702</u>	<u>(10,928)</u>	<u>161,168</u>

	Company				
	Share premium HK\$'000	Contributed surplus HK\$'000 (Note (a))	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1st July, 2002	86,590	73,718	702	13,047	174,057
Issue of Shares (Note 25)	11,086	—	—	—	11,086
Profit attributable to Members Twelve months ended 30th June, 2002	—	—	—	12,333	12,333
final dividend paid	—	—	—	(3,040)	(3,040)
Twelve months ended 30th June, 2003 interim dividend paid	—	—	—	(6,138)	(6,138)
As at 30th June, 2003	<u>97,676</u>	<u>73,718</u>	<u>702</u>	<u>16,202</u>	<u>188,298</u>
Representing:					
Twelve months ended 30th June, 2003 final dividend proposed					3,069
Reserves as at 30th June, 2003					<u>185,229</u>
					<u>188,298</u>

Notes:

- (a) The contributed surplus represented the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the Shares issued for the acquisition at the time of the group reorganisation. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus was distributable to Members, subject to the condition that the Company could not declare or pay a dividend, or make a distribution out of contributed surplus if (i) it was, 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 31st December, 2004 amounted to HK\$62,790,000 (30th June, 2003: HK\$89,920,000).

NOTES TO THE ACCOUNTS

27 Deferred taxation

Deferred tax assets were recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group had unrecognised tax losses as at 31st December, 2004 of HK\$148,735,000 (30th June, 2003: HK\$251,000) respectively to carry forward against future taxable income. These tax losses had not been accounted for due to uncertainty on future realisation. The tax losses would expire according to the prevailing tax laws and regulations in the jurisdictions in which the Group operated.

There was no other material unprovided deferred taxation as at 31st December, 2004.

28 Consolidated cash flow statement

(a) Reconciliation of operating (loss)/profit to cash outflow from operating activities

	Group	
	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Operating (loss)/profit	(175,169)	16,653
Amortisation of goodwill	5,506	145
Amortisation of software licences	1,833	—
Depreciation	8,041	2,503
Dividend income	(112)	(650)
Exchange differences	(4,196)	116
Impairment of a non-trading security	—	1,328
Impairment of investment in an associated company	2,235	—
Impairment of a software licence	9,900	—
Interest income	(3,124)	(1,851)
Loss on disposal of fixed assets	390	8
Loss on disposal of non-trading securities	2,690	—
Provision for doubtful debts	51,170	—
Realised gain on disposal of a trading security	(311)	—
Realised gain on disposal of a non-trading security	—	(2,717)
Write-down of inventories to net realisable value	49,646	10,236
Operating (loss)/profit before working capital changes	(51,501)	25,771
Decrease/(increase) in inventories	46,126	(38,353)
(Increase)/decrease in trade and bills receivables and other receivables, deposits and prepayments	(73,297)	46,534
Increase/(decrease) in trade and bills payables	21,684	(51,548)
Increase/(decrease) in other payables and accruals	28,197	(19,557)
Cash outflow from operating activities	(28,791)	(37,153)

NOTES TO THE ACCOUNTS

28 Consolidated cash flow statement (Continued)

(b) Purchase of subsidiaries

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Net assets acquired		
Intangible assets	1,492	—
Fixed assets	5,641	183
Interest in an associated company	—	9,283
Inventories	3,791	644
Trade and bills receivables	8,298	14
Other receivables, deposits and prepayments	25,067	228
Bank balances and cash	5,648	2,200
Trade and bills payables	(44,574)	(2,222)
Other payables and accruals	(32,014)	(121)
Taxation payable	(17)	(2)
Loan payable	(13,321)	—
Minority shareholders' interests	(8,919)	(4,083)
	<u>(48,908)</u>	<u>6,124</u>
Goodwill	89,507	1,447
Carrying value of interest in an associated company	—	(5,003)
	<u>40,599</u>	<u>2,568</u>
Satisfied by		
Cash	<u>40,599</u>	<u>2,568</u>

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

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Cash consideration	(36,854)	(1,846)
Professional fee	(3,738)	—
Cash injected as capital	(7)	(722)
	<u>(40,599)</u>	<u>(2,568)</u>
Add: cash advanced in previous year	8,227	2,568
Add: bank balances and cash in hand acquired	5,648	2,200
Net cash (outflow)/inflow in respect of the purchase of subsidiaries	<u>(26,724)</u>	<u>2,200</u>

NOTES TO THE ACCOUNTS

28 Consolidated cash flow statement (Continued)

(c) Major non-cash transactions

On 23rd December, 2003, MIL allotted and issued an aggregate of 360 shares of US\$1 each, representing approximately 18% of the enlarged issued share capital of MIL issue, as consideration of HK\$11,000,000 for purchase of a software licence.

29 Contingent liabilities

	Group		Company	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Guarantees for bank loans and overdrafts of subsidiaries	—	—	300,836	350,840
Trade receivables discounted with full recourse	—	18,376	—	—
	—	18,376	300,836	350,840

Management anticipated that no material liabilities would arise from the above bank and other guarantees in the ordinary course of business.

30 Operating lease commitments

As at 31st December, 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group			
	Land and buildings		Others	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Not later than one year	3,893	1,592	311	—
Later than one year and not later than five years	5,750	1,536	70	—
Later than five years	—	7	—	—
	9,643	3,135	381	—

NOTES TO THE ACCOUNTS

31 Future operating lease arrangements

As at 31st December, 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	Group	
	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Not later than one year	2,319	—
Later than one year and not later than five years	2,626	—
	<u>4,945</u>	<u>—</u>

32 Related party transactions

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

	Eighteen- Month Period HK\$'000	Twelve months ended 30th June, 2003 HK\$'000
Sale of goods to a related company (Note (a))	26	67
Purchase of goods from a related company (Note (a))	(212)	—
Rental charges payable to a Director (Note (b))	(566)	(678)
Software development fee payable to a company (Note (c))	(480)	—
Acquisition of an associated company from a Director (Note (d))	(44)	—
Management fee receivable from a related company (Note (e))	1,478	—
Rental charges payable to a related company (Note (f))	(335)	—
Management fee payable to a related company (Note (g))	(278)	—
	<u> </u>	<u> </u>

Notes:

- (a) Various subsidiaries bought and sold goods to a company owned by José Manuel dos Santos, a Director.
- (b) (i) The Group was permitted to use its Macao office premises from a company owned by José Manuel dos Santos who waived the Group rental payment. The Group also was permitted to use another premise of José Manuel dos Santos, who waived the rental payment, as staff quarter commencing 1st September, 2003.
- (ii) In addition, the Group also leased the Hong Kong warehouse and its Guangzhou office premises from José Manuel dos Santos at a monthly rental of HK\$30,000 and approximately RMB28,000 (approximately HK\$26,000) respectively.

NOTES TO THE ACCOUNTS

32 Related party transactions (Continued)

- (c) During the Eighteen-Month Period, software development fees had been paid to a company owned by Kuok Cheong Ian, a director of a subsidiary. There were no such transactions after the appointment of Kuok Cheong Ian as a director of a subsidiary since 16th December, 2003.
- (d) The Group acquired 45% equity interest in an associated company, Source Tech Limited, from José Manuel dos Santos for consideration of MOP45,000 (approximately HK\$44,000).
- (e) The Group provided management services to a company owned by a minority shareholder of a subsidiary.
- (f) A subsidiary entered into a lease agreement with a company owned by a minority shareholder of a subsidiary to lease office space for a period of five years commencing 1st July, 2004 at a monthly rental of approximately €6,000 (approximately HK\$56,000). The lease was entered into on normal commercial terms.
- (g) A subsidiary received management services from a company owned by a director of various subsidiaries.
- (h) As at 31st December, 2004, the Group had unsecured advances to the following associated company:

	As at 31st December, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
VCTHL (Note)	<u>3,164</u>	<u>3,164</u>

Note:

The advance to VCTHL was unsecured, interest-free with no fixed terms of repayment. The other shareholder of VCTHL, a third party, had also advanced to VCTHL an amount exceeding the proportion of its share of equity interest in VCTHL. The advance to VCTHL had been fully provided.

The Directors were of the opinion that the transactions as described in notes (a), (b)(ii), (c), (e), (f) and (g) above had 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, were fair and reasonable and in the interest of the Members as a whole.

The Directors were of the opinion that the transactions as described in notes (b)(i) and (d) above were on terms better than normal commercial terms to the Group and were fair and reasonable and in the interest of so far as the Members as a whole.

33 Approval of accounts

The accounts were approved by the Board on 14th April, 2005.

FINANCIAL SUMMARY

For the Eighteen-Month Period

	Eighteen-Month Period HK\$'000	Twelve months ended 30th June,			
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000 (restated)	2000 HK\$'000 (restated)
Turnover	589,883	388,794	601,108	546,915	482,267
(Loss)/profit attributable to Members	(173,625)	10,594	56,992	54,136	78,185
Total assets	585,170	491,822	552,275	548,449	459,699
Total liabilities	412,457	151,368	223,239	255,638	215,040
Net assets	172,713	340,454	329,036	292,811	244,659

The turnover, (loss)/profit attributable to Members, total assets and total liabilities of the Group for the twelve months ended 30th June, 2000 had 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 periods presented.

DEFINITIONS

In this annual report (excluding the “Auditors’ Report to the shareholders of the Company”), unless the context otherwise requires, the following expressions shall have the following meanings:

“Agent”	Standard Chartered Bank (Hong Kong) Limited
“Agreement”	the loan facility agreement effective on 26th September, 2003 entered into between VHL and the Lenders referring to the US\$15,000,000 (approximately HK\$116,700,000) term loan facility
“Associated Corporation(s)”	corporation(s): <ul style="list-style-type: none">(a) which are subsidiaries or holding companies of the Company or subsidiaries of the holding company of the Company; or(b) (not being subsidiaries of the Company) in which the Company has an interest in the shares of a class comprised in its share capital exceeding in nominal value one-fifth of the nominal value of the issued share of that class
“Audit Committee”	the audit committee of the Company
“Board”	the board of the Directors
“BVI”	the British Virgin Islands
“Bye-laws”	the existing bye-laws of the Company
“CAOCL”	Communications Appliances Ou Chung Limited, details of which can be referred to in note 15 to the accounts
“CHASL”	Compañia Hispanoholandesa de Audiotex, S.L., details of which can be referred to note 15 to the accounts
“Chief Executive”	a person who either alone or together with one or more other persons is or will be responsible under the immediate authority of the Board for the conduct of the business of the Company
“Company”	Vodatel Networks Holdings Limited
“Controlling Shareholder”	any person who is or group of persons who are together entitled to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Code on Takeovers and Mergers approved by the Securities and Futures Commission, established under section 3 of the Securities and Futures Commission Ordinance (Cap. 24 of the Laws of Hong Kong) and continuing in existence under section 3 of the SFO, as amended from time to time, as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the Company or who is or are in a position to control the composition of a majority of the Board
“CPPCC”	Chinese People’s Political Consultative Conference

DEFINITIONS

“Director(s)”	the director(s) of the Company
“DM”	Deutsche Mark, the lawful currency of Germany before the introduction of €
“Eighteen-Month Period”	the eighteen months ended 31st December, 2004
“ERL”	Eve Resources Limited, a company incorporated in BVI with limited liability
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
“Finland”	The Republic of Finland
“Gazetted Newspapers”	those newspapers which are, from time to time, specified in the list of newspapers issued and published in the Gazette for the purposes of section 71A of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) as amended from time to time by the Chief Secretary of the Government of Hong Kong
“GEM”	the Growth Enterprise Market operated by the Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, made by the Exchange from time to time
“GEM Website”	the internet website operated by the Exchange for the purposes of GEM
“Germany”	The Federal Republic of Germany
“GLGTCT”	Guangzhou LG TOPS Communication Technologies Co. Ltd., details of which can be referred to note 16 to the accounts
“Group” or “Vodatel”	the Company and its subsidiaries
“GTVD”	Guangzhou Thinker Vodatel Development Company Limited, details of which can be referred to note 15 to the accounts
“Guarantee”	the deed of guarantee and indemnity executed by the Company in favour of the Lenders on 26th September, 2003 in respect of the obligations of VHL under the Agreement
“GVDL”	廣州市愛達利發展有限公司, details of which can be referred to in note 15 to the accounts
“GZIC”	廣州市圖文資訊有限公司, details of which can be referred to in note 15 to the accounts
“HK cents”	Hong Kong cents, where 100 HK cents equal HK\$1
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“HKFRS”	financial reporting standards approved by the Council of the HKICPA, and includes all SSAP and interpretations of HKFRS approved by the HKICPA from time to time

DEFINITIONS

“HKICPA”	the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC (not applicable to the Hong Kong Institute of Certified Public Accountants, Standard Chartered Bank (Hong Kong) Limited, The Stock Exchange of Hong Kong Limited, MegalInfo (Hong Kong) Limited, Tidestone Science and Technology (Hong Kong) Company Limited and Vodatel Hong Kong Limited)
“IVR”	interactive voice response
“Lenders”	Banco Comercial de Macau S.A., CITIC Ka Wah Bank Limited, Industrial and Commercial Bank of China (Asia) Limited, HSH Nordbank AG, Hong Kong Branch and the Agent
“LRL”	Lois Resources Limited, a company incorporated in BVI with limited liability
“Macao”	the Macao Special Administrative Region of the PRC (not applicable to the Macao Chamber of Commerce, the Association of Economic Science of Macao, the Macao Junior Chamber of Commerce, Vodatel Macao Holdings Limited and Vodatel Systems Inc. - Macao Commercial Offshore)
“Main Board”	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mainland China”	the PRC, other than the regions of Hong Kong, Macao and Taiwan
“Member(s)”	duly registered holder(s) from time to time of the Shares
“MFO”	Mediatel Finland Oy, details of which can be referred to note 15 to the accounts
“MIHL”	MegalInfo Holdings Limited, where Shares of MIHL are listed on GEM and details of which can be referred to in note 15 to the accounts
“MIL”	MegalInfo Limited, details of which can be referred to note 15 to the accounts
“MOP”	Patacas, the lawful currency of Macao
“NUPT”	Nanjing University of Posts and Telecommunications
“OSS”	Operation Support System
“PEML”	Power Express (Macao) Limited, details of which can be referred to note 15 to the accounts
“PERDL”	PE Research and Development Limited, details of which can be referred to note 15 to the accounts
“PRC”	The People’s Republic of China

DEFINITIONS

“RMB”	Renminbi, the lawful currency of Mainland China
“Santos’ Family Trust”	the existing trust whereby the family members of José Manuel dos Santos are the discretionary objects and which assets include a controlling stake of 47.80% of the issued share capital of the Company
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) as amended from time to time
“SGMBH”	SuperCom GmbH, details of which can be referred to note 15 to the accounts
“Shares of MIHL”	share(s) of HK\$0.01 each in the capital of MIHL
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“SMS”	short message services
“Spain”	The Kingdom of Spain
“SSAP”	Statement of Standard Accounting Practice
“STASA”	Servicios Telefónicos de Audiotex SA, details of which can be referred to note 15 to the accounts
“Substantial Shareholder”	in relation to a company means a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
“TCM”	Teleconcept-Multimedia N.V., details of which can be referred to in note 15 to the accounts
“The Netherlands”	The Kingdom of the Netherlands
“TIESL”	Telefonía Inteligente Española, S.L., details of which can be referred to note 15 to the accounts
“TMBV”	TeleConcept Multimedia B.V., details of which can be referred to note 15 to the accounts
“TMPO”	Tel-More Productions Oy, details of which can be referred to note 15 to the accounts
“TSTSH”	泰思通軟件(上海)有限公司, details of which can be referred to note 15 to the accounts
“UK”	The United Kingdom of Great Britain and Northern Ireland
“UM”	University of Macau
“US\$”	United States Dollar, the lawful currency of the USA
“USA”	The United States of America

DEFINITIONS

“VCTHL”	Vodatel Crossland Technology Holdings Limited, details of which can be referred to note 16 to the accounts
“VFO”	Voxtel Finland Oy, details of which can be referred to note 15 to the accounts
“VHL”	Vodatel Holdings Limited, details of which can be referred to in note 15 to the accounts
“Zetronic”	Zetronic Communications (Macau) Limited, a company incorporated in Macao with limited liability
“ZMSD”	珠海萬佳達軟件開發有限公司, details of which can be referred to in note 15 to the accounts
“€”	Euro, the lawful currency of the European Union