

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

Principal activity and geographical analysis of operations

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

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

Results and appropriations

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

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

Reserves

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

Donations

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

Fixed assets

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

Share capital

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

Convertible bonds

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



Distributable reserves

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

Five-year financial summary

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 83.

Purchase, sale or redemption of shares

The company has not redeemed any of its shares during the year. Neither the company nor any of its subsidiaries has purchased or sold any of the company's shares during the year.

Directors

The directors during the year were:

Mr. José Manuel dos Santos

Mr. Yim Hong

Mr. Kuan Kin Man

Ms. Monica Maria Nunes

Mr. Ho Kwok Hung (resigned on 10th January 2002)

* Mr. Chui Sai Cheong

* Mr. Lo King Chiu, Charles

* Independent non-executive directors

In accordance with Article 87 of the company's bye-laws, Mr. Chui Sai Cheong retires at the forthcoming annual general meeting but, being eligible, offers himself for re-election.

Mr. Chui Sai Cheong and Mr. Lo King Chiu, Charles, are independent non-executive directors and were appointed for a two and a half-year term expiring on 13th December 2004.

Directors' service contracts

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

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

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

Save as disclosed herein, there are no existing or proposed service contracts between any member of the group and any of the directors.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on page 20 to 24.



Directors' interests in contracts

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

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

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

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

Connected transactions

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

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

Directors’ interests in equity or debt securities

At 30th June 2002, the interests of the directors in the shares and options of the company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)), as recorded in the register maintained by the company under Section 29 of the SDI Ordinance or as notified to the company were as follows:

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

Note:

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



Share options

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

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

(a) Purpose

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

(b) Qualified participants

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

(c) Maximum number of shares

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

(d) Maximum entitlement of each qualified participant

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

(e) Options exercisable period

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

(f) Payment on acceptance of option

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

(g) Basis of determining the exercise price

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

Share options (Continued)

(h) Remaining life of the Scheme

The Scheme will remain valid until 10th February 2010.

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

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

Notes:

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

Share options (Continued)

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

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

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

The above variables were determined as follows:

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

Share options (Continued)

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

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

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

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



Substantial shareholders

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

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

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

Management contracts

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

Interest of sponsor

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

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

Major customers and suppliers

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

Purchases	
- the largest supplier	67%
- five largest suppliers combined	88%
Sales	
- the largest customer	21%
- five largest customers combined	45%

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

Directors' interest in competing business

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

Subsequent event

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

Board practices and procedures

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



Audit committee

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

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

Auditors

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

On behalf of the Board

José Manuel dos Santos

Chairman

Hong Kong, 16th September 2002