

# MANAGEMENT DISCUSSION & ANALYSIS

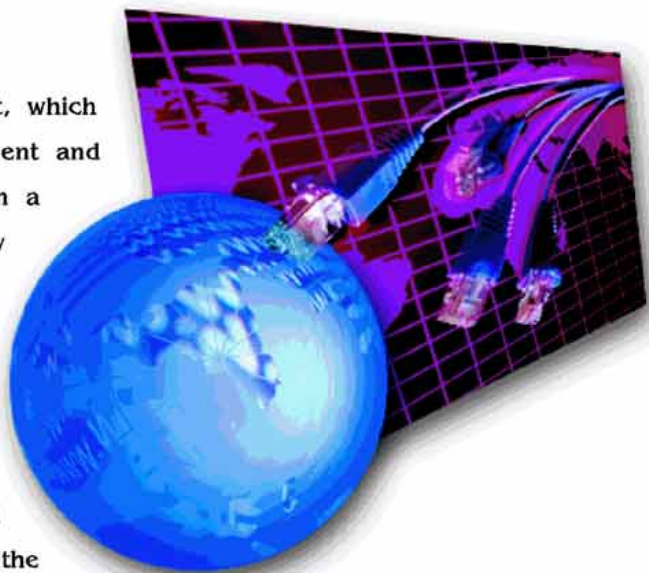
## REVIEW OF BUSINESS ACTIVITIES

### DATA NETWORK INFRASTRUCTURE

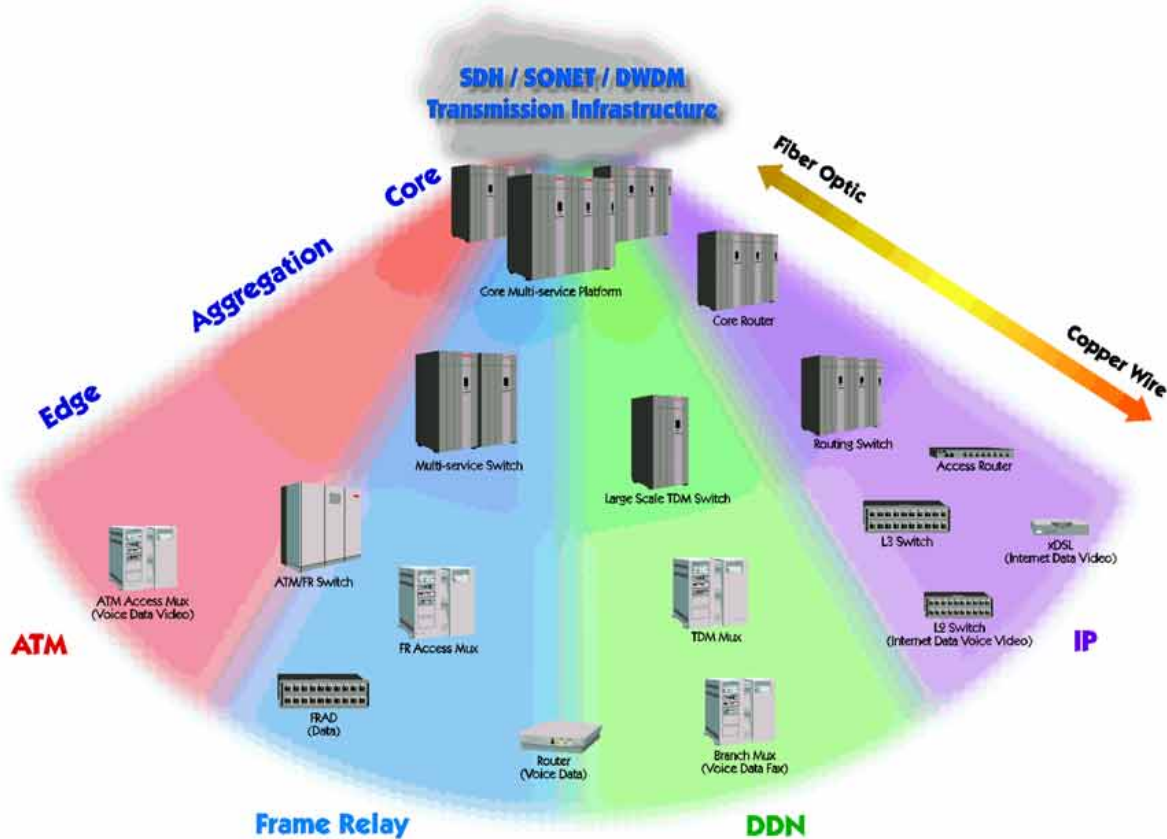
We continued to achieve steady results in our core business – the construction of public data infrastructure for telecommunications service providers in the PRC. Despite the reorganization of the telecommunications industry, the growing economy in the PRC has continued to drive an on-going expansion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

The integrated data networks concept, which promotes effective network management and efficient use of network resources on a unified platform, has been widely accepted and adopted by majority of our customers. Major projects awarded to us during the year included the HK\$11.1 million contract by Guizhou China Telecom to construct Guizhou's provincial broadband ATM network and to integrate with its existing DDN and the HK\$20.2 million contract by Hunan China Telecom

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



## SCHEMATIC DISTRIBUTION OF NETWORKING EQUIPMENT

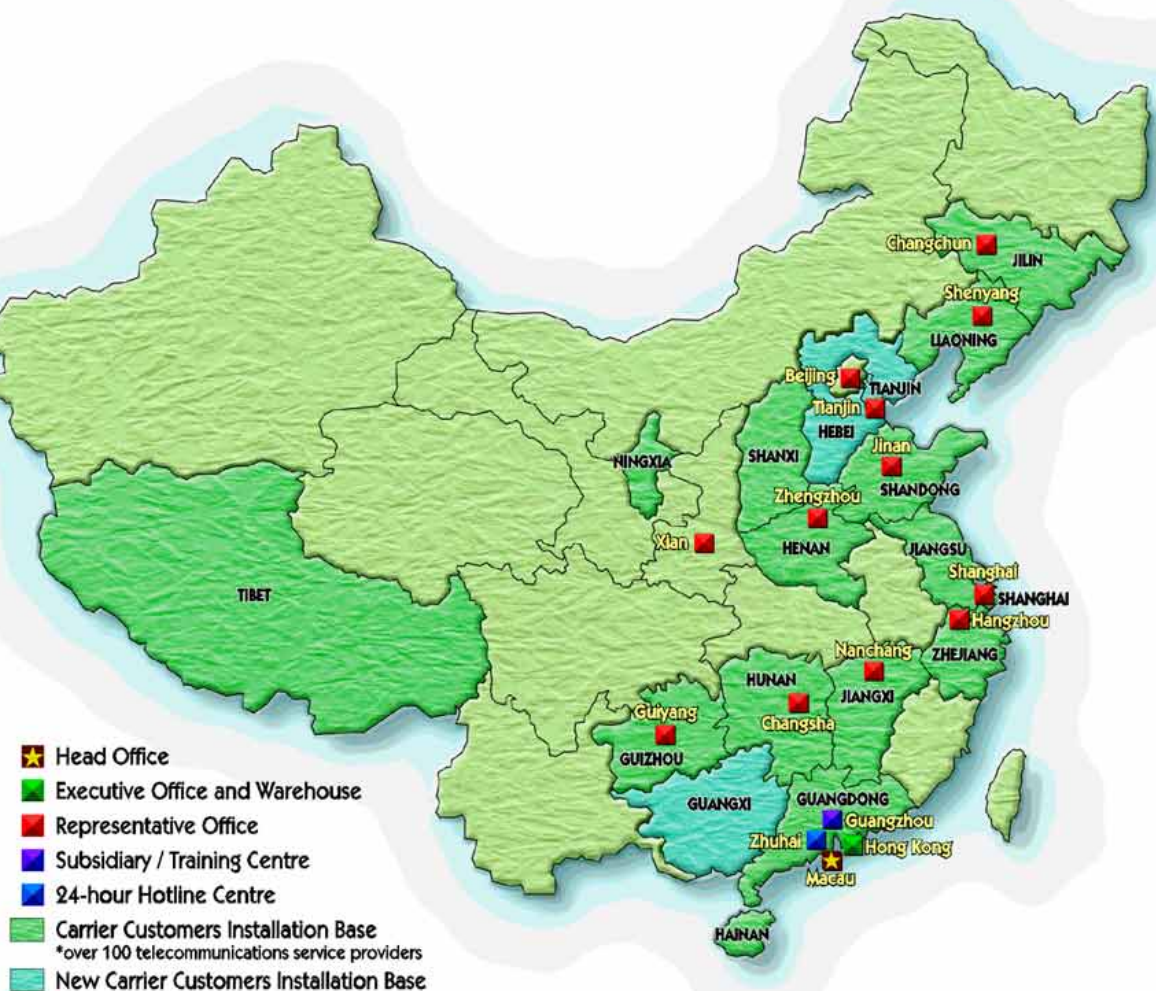


Given the huge potential of the broadband IP Metropolitan network market in the PRC and encouraged by our previous success in entering this market, we continued to enrich our array of products to strengthen our competency in securing more broadband IP Metropolitan network projects by taking up the distributorship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



### TECHNICAL SERVICES

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





## **WIRELESS COMMUNICATIONS**

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

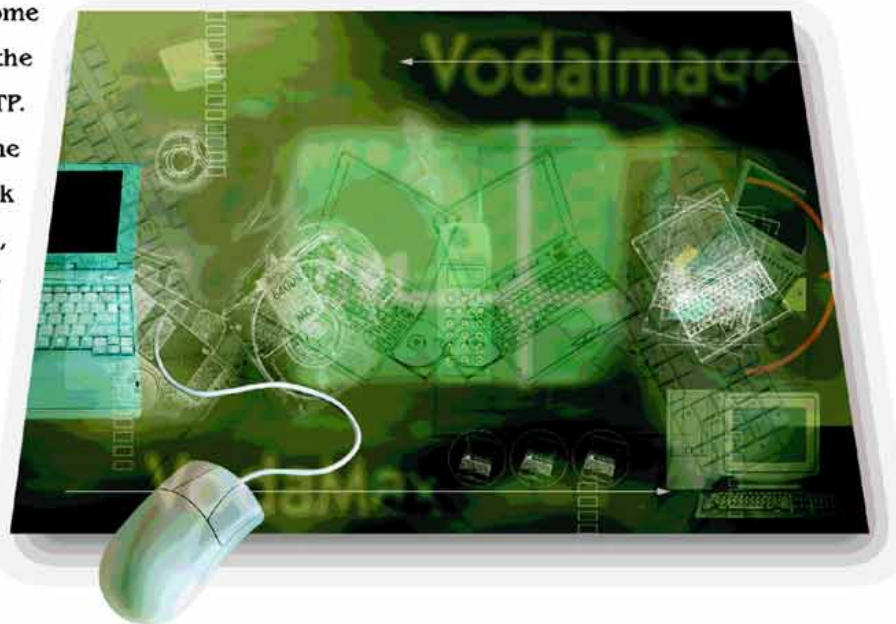


### SELF-DEVELOPED PRODUCTS

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

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

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



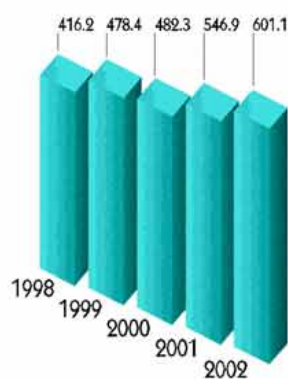
## REVIEW OF OPERATING RESULTS

### TURNOVER AND PROFITABILITY

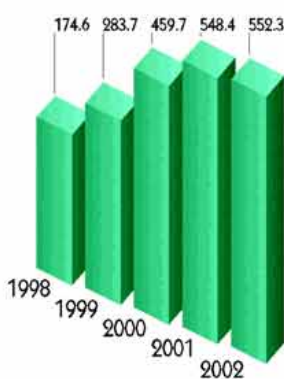
During the year, despite the restructuring of the telecommunications industry, we achieved turnover of HK\$601.1 million, representing an increase of 9.9% over the preceding year. This increase has been attributable to the growth in both of our project sales, which involved in the design, sale and implementation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

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

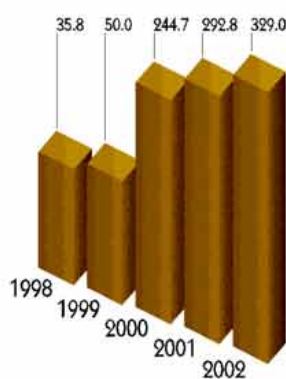
**Turnover**  
(HK\$ Million)



**Total Assets**  
(HK\$ Million)



**Shareholders' Funds**  
(HK\$ Million)



Fiscal Year ended June 30



### **CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES**

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

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

### **EMPLOYEES' INFORMATION**

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

