



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(incorporated in Bermuda with limited liability)

Websites: <http://www.vodatelsys.com>; www.irasia.com/listco/hk/vodatel

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This announcement, for which the directors of Vodatel Networks Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Vodatel Networks Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: - (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2003

- Despite a very difficult year due to the restructuring of the telecommunications industry, announced our eighth consecutive profitable year, with turnover of HK\$388.8 million and net profit of HK\$10.6 million;
- Proposed a final dividend of 0.5 HK cent per share, equating total dividend of 1.5 HK cents for the fiscal year;
- Successfully expanded our geographical footprints from 18 to 20 provinces, municipalities and autonomous regions in the PRC and secured contracts from new customers groups;
- Capitalized on our established presence in Macau, successfully secured contracts from the Macau SAR Government and a gaming operator;
- Made our first move into the Asia Pacific Region by participating in a consortium that exclusively operates and provides telecommunications services to the citizens of East Timor;
- Completed the development of Operation Support Systems, with our first contract win in September 2003; and
- Submitted an application for the separate listing of MegaInfo's shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong.

RESULTS

The Board of Directors is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 30th June 2003, together with the comparative audited figures for the corresponding year ended 30th June 2002 as follows:

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

Movement in reserves of the Group during the year were as follows:

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

Movement in reserves of the Group during the year were as follows: (Continued)

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

Segment reporting

Primary reporting format - business segments

The group is organised into two main business segments:

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

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

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

Primary reporting format - business segments (Continued)

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

Secondary reporting format - geographical segment

The group is engaged in the design, sale and implementation of data networking systems and provision of related engineering services, and sale of goods in two main geographical areas, namely the People's Republic of China (the "PRC") and Macau and Hong Kong. The PRC, for the purpose of these accounts, excludes Macau and Hong Kong.

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

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

Secondary reporting format - geographical segment (Continued)

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

Notes to the accounts

1. Basis of preparation of the accounts

- (a) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that non-trading securities are stated at fair value.
- (b) In the current year, the Group adopted Statement of Standard Accounting Practice (“SSAP”) No. 34 (revised) “Employee benefits” issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002. The adoption of SSAP No. 34 had no material impact on the preparation of the accounts.

2. Revenues and Turnover

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

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

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

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

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

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

3. Operating profit

Operating profit is stated after crediting and charging the followings:

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

4. Finance cost

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on convertible bonds	<u>635</u>	<u>173</u>

5. Taxation

The taxation charge comprises:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong profits tax (<i>note a</i>)	—	—
Macau complementary profits tax (<i>note b</i>)	2,392	10,274
PRC profits tax (<i>note c</i>)	<u>266</u>	<u>283</u>
	<u>2,658</u>	<u>10,557</u>

(a) No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any estimated assessable Hong Kong profits for the year.

(b) Macau complementary profits tax has been calculated at 15.75% on the estimated assessable profits of group companies operating in Macau.

(c) The PRC profits tax has been calculated at 33% on the estimated assessable profits of group companies operating in the PRC.

(d) There was no material unprovided deferred taxation for the year (2002: Nil).

6. Dividends

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

Notes:

(a) At a meeting held on 22nd September 2003, the directors proposed a final dividend of 0.5 HK cent (2002: 0.5 HK cents) per share to be paid to the shareholders whose names appear on the register of members of the Company on 24th November 2003. The dividend will be payable on 12th December 2003. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 30th June 2003. Together with the interim dividend of 1.0 HK cent, total dividends per share for the year will amount to 1.5 HK cents (2002: 1.5 HK cents).

(b) The register of members of the Company will be closed from 19th November 2003 to 24th November 2003, both days inclusive, during which period no transfer of shares may be registered. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Abacus Share Registrars Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration, not later than 4:00 p.m. on 18th November 2003.

7. Earnings per share

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

The calculation of fully diluted earnings per share is based on Group's profit attributable to shareholders of HK\$10,594,000 (2002: HK\$57,137,753) on the assumption that the weighted all share options outstanding, except for convertible bond having anti-dilutive effect, had been converted and had saved finance costs thereon and the weighted average of 609,969,068 (2002: 612,211,940) shares issued and issuable.

8 Contingent liabilities

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

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

9 Capital commitments

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for	—	—
Authorised but not contracted for	<u>—</u>	<u>1,000</u>
	<u>—</u>	<u>1,000</u>

MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF BUSINESS ACTIVITIES

Our Performance In The PRC

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

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

Macau - A Golden Opportunity

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

Progressing In The Asia Pacific Region

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

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

Expanding Our Products Portfolio

We continued to identify innovative and value-added products from international vendors that fit the needs of our customers and our markets. In addition to represent products based on DDN, Frame Relay, ATM and broadband IP technologies, we have also taken up products based on the technology of multi-services transport platform ("MSTP"). MSTP is a

bandwidth management solution that provides aggregation, grooming and business services in metro/regional networks, allowing telecommunications service providers to realize the full potential of their networks and reduce network operating and life-cycle costs.

Investing In Our Own Products

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

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

REVIEW OF OPERATING RESULTS

Turnover and Profitability

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

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

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

Capital structure, liquidity and financial resources

The Group continued to maintain a healthy financial and capital structure with minimal bank borrowings. During the year, we exercised our option to convert US\$1.5million of the convertible bonds issued to Riverstone Networks ("Riverstone") into shares of Vodatel at an exercise price of HK\$2.0 by creating 5,835,000 new shares of Vodatel and retired US\$0.75 million of the convertible bonds. As at 30th June, 2003, outstanding debt on our books included US\$1.25 million (HK\$9.7 million) of the 1.90875% convertible bonds issued to Riverstone, which mature on 28th February 2004, and RMB10.0 million of short-term loans raised to facilitate the operating activities of our subsidiary in the PRC. The gearing ratio (total borrowings / shareholders' funds) of the Group stood at a comfortable level of 5.6%.

The Group continued to maintain strong liquidity position with cash and bank deposits amounted to HK\$163.6 million, translating to cash of HK\$0.27 per share. Cash from settlement of receivables have been offset by payments made against payables and inventories, with the increase of inventory level to support approximately HK\$70 million of confirmed orders.

Employees' Information

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

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

Capital commitments and significant investments

As at 30th June 2003, the Group did not have any significant capital commitments and significant investments.

Material acquisition /disposals

The Group did not have any material acquisitions or disposals during the reporting period.

Charges on group assets

As at 30th June 2003, the Group did not have any charges on group assets.

Details of material acquisitions and disposals

During the year, the Group has acquired an additional 11% indirect interest in an associated company which has become a subsidiary of the Company after the acquisition.

Details of future plans for material investment or capital assets

The Directors currently do not have any future plans for material investment or capital assets.

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars, Macau dollars, US dollars and Renminbei. The Directors considers the impact of foreign exchange exposure of the Group is minimal.

Contingent liabilities

At 30th June 2003, the company has provided corporate guarantee of HK\$350,840,000 (2002: HK\$407,000,000) in favour of certain banks to secure banking facilities granted to certain subsidiaries.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

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

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

Notes:

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

Save as disclosed above, no directors, chief executive or their associates had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV

of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

At 30th June 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

Share options

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

On 30th June 2003, 19,092,000 share options under the old scheme were cancelled and 17,138,000 share options were granted under the New Scheme to directors, executives and employees of the Company. Details of the scheme are as follows:

(a) Purpose

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

(b) Qualifying participants

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

(c) Maximum number of shares

The total number of shares available for issue under the Scheme as at 30th June 2003 is 61,381,900, representing 10% of the issued share capital of the Company as at 30th June 2003.

(d) Maximum entitlement of each qualified participant

No option may be granted to any qualified participant which, if exercised in full, would result in the total number of shares already issued and issuable to him/her under the Scheme exceeding 30% of the aggregate number of shares for the time being issued and issuable under the Scheme.

(e) Options exercisable period

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

(f) Payment on acceptance of option

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

(g) Basis of determining the exercise price

The exercise price shall be at least the higher of (i) the closing price of shares on the 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.

(h) Remaining life of the Scheme

The Scheme will remain valid until 4th November 2012.

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

Name or category of participant	Options held at 1st July 2002	Options granted during year	Options lapsed during the year	Options cancelled during the year	Options held at 30th June 2003	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
<i>Directors</i>									
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	1st August 2001	1st February 2002	31st January 2005
	—	600,000	—	—	600,000	0.42(i)	30th June 2003	30th June 2003	29th June 2006
Mr. Yim Hong	290,000	—	—	(290,000)	—	1.19	16th August 2000	16th February 2001	15th February 2004
	522,000	—	—	(522,000)	—	0.79	1st August 2001	1st February 2002	31st January 2005
	—	900,000	—	—	900,000	0.42(i)	30th June 2003	30th June 2003	29th June 2006
Mr. Kuan Kin Man	290,000	—	—	(290,000)	—	1.19	16th August 2000	16th February 2001	15th February 2004
	522,000	—	—	(522,000)	—	0.79	1st August 2001	1st February 2002	31st January 2005
	—	900,000	—	—	900,000	0.42(i)	30th June 2003	30th June 2003	29th June 2006
Ms. Monica Maria Nunes	290,000	—	—	(290,000)	—	1.19	16th August 2000	16th February 2001	15th February 2004
	522,000	—	—	(522,000)	—	0.79	1st August 2001	1st February 2002	31st January 2005
	—	900,000	—	—	900,000	0.42(i)	30th June 2003	30th June 2003	29th June 2006
Sub-total for directors	<u>3,248,000</u>	<u>3,300,000</u>	<u>—</u>	<u>(3,248,000)</u>	<u>3,300,000</u>				
<i>Continuous contract employees</i>									
	4,466,000	—	(514,000)	(3,952,000)	—	1.19	16th August 2000	16th February 2001	15th February 2004
	11,378,000	—	(1,400,000)	(9,978,000)	—	0.79	1st August 2001	1st February 2002	31st January 2005
	—	13,838,000	—	—	13,838,000	0.42(i)	30th June 2003	30th June 2003	29th June 2006
Sub-total for continuous contract employees	<u>15,844,000</u>	<u>13,838,000</u>	<u>(1,914,000)</u>	<u>(13,930,000)</u>	<u>13,838,000</u>				
Total	<u>19,092,000</u>	<u>17,138,000</u>	<u>(1,914,000)</u>	<u>(17,178,000)</u>	<u>17,138,000</u>				

Note

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

In assessing the value of the share options granted during the year ended 30th June 2003, the Black-Scholes option pricing model (the “Black-Scholes Model”) has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models as set out in Chapter 23 of the 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 30 th June 2003
Expected life	3
Risk-free rate	1.83%
Expected volatility	68.21%
Expected dividend yield	3.61%

The above variables were determined as follows:

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

Using the Black-Scholes Model in assessing the value of share options granted during the year, the options would have an aggregate value of approximately HK\$2,913,400 represented as follows:

Directors, chief executives and other employees	Date of issue	Number of share options granted during the year	Estimated value per option HK\$	Estimated value of options granted during the year HK\$
Mr. José Manuel dos Santos	30th June 2003	600,000	0.17	102,000
Mr. Yim Hong	30th June 2003	900,000	0.17	153,000
Mr. Kuan Kin Man	30th June 2003	900,000	0.17	153,000
Ms. Monica Maria Nunes	30th June 2003	900,000	0.17	153,000
Other employees	30th June 2003	13,838,000	0.17	<u>2,352,400</u>
Total				<u>2,913,400</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 SHAREHOLDER

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

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

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.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 to the Rules Governing the Listing of Securities on GEM since listed on the GEM of the Stock Exchange.

AUDIT COMMITTEE

The Company established an audit committee on 10th February 2000 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee has three members comprising Mr. José Manuel dos Santos, Chairman, and the two independent non-executive Directors, Mr. Chui Sai Cheong and Mr. Lo King Chiu, Charles.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Vodatel Networks Holdings Limited
José Manuel dos Santos
Chairman

Hong Kong, 22nd September 2003

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the day of its posting and on the Company's website at www.vodatelsys.com.