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Global Link

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**Global Link Communications Holdings Limited**

*(incorporated in the Cayman Islands with limited liability)*

**Third Quarterly Report 2002**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**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 Stock Exchange. Listed companies are not generally required to issue paid announcement 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.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report. This report, for which the directors (“the Directors”) of Global Link Communications Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

Turnover for the nine months ended 31 December 2002 was HK\$20,515,000 representing a 18.3% decrease from the corresponding period of last year.

Net profit attributable to shareholders amounted to approximately HK\$3,678,000 representing a 42.7% decrease from the corresponding period of last year.

## UNAUDITED THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

The board of directors (the “Board”) of Global Link Communications Holdings Limited (the “Company”) is pleased to announce the unaudited condensed combined financial statements of the Company and its subsidiaries (together the “Group”) for the three months and the nine months ended 31 December 2002 together with the unaudited comparative figures for the corresponding period in 2001 (“Last Corresponding Period”) as follows:

		For the three months ended 31 December		For the nine months ended 31 December	
		2002	2001	2002	2001
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	<b>5,006</b>	2,508	<b>20,515</b>	25,105
Cost of sales		<b>(4,567)</b>	(461)	<b>(12,396)</b>	(15,499)
Gross profit		<b>439</b>	2,047	<b>8,119</b>	9,606
Other revenue		<b>91</b>	0	<b>247</b>	794
Selling expenses		<b>(578)</b>	(276)	<b>(1,386)</b>	(818)
Administrative expenses		<b>(1,408)</b>	(355)	<b>(3,205)</b>	(2,278)
Profit from operations		<b>(1,456)</b>	1,416	<b>3,775</b>	7,304
Finance costs		<b>(6)</b>	(11)	<b>(4)</b>	2
Profit before taxation		<b>(1,462)</b>	1,406	<b>3,771</b>	7,307
Taxation	3	<b>0</b>	(1)	<b>(94)</b>	(20)
Minority interests		<b>0</b>	0	<b>0</b>	(869)
Profit attributable to shareholders		<b>(1,462)</b>	1,404	<b>3,678</b>	6,417
Dividend	4	<b>0</b>	0	<b>0</b>	0
Earnings/(Loss) per share – basic (in HK cents)	5	<b>(0.2)</b>	0.2	<b>0.6</b>	1.1

# NOTES TO THE INCOME STATEMENT

## 1. Group reorganization and basis of presentation

The Company was incorporated in the Cayman Islands on 9 May 2002 as an exempted Company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization (the “Reorganization”) to rationalize the group structure in preparation for the listing of the Company’s shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”), the Company became the holding company of the Group upon completion of the Reorganization on 23 October 2002. Further details of the Reorganization are set out in the Company’s prospectus dated 31 October 2002 (the “Prospectus”). The Company’s shares were listed on GEM on 13 November 2002. The Group resulting from the Reorganization is regarded as a continuing entity.

The unaudited condensed combined financial statements of the Group have been prepared as if the Group for the nine months ended 31 December 2002 and 31 December 2001 had been in existence throughout the periods covered by this report or since their respective dates of incorporation where this is a shorter period except that Guangzhou Global Link Communications Inc. has been accounted for as a 54% owned subsidiary from the date of incorporation to 22 August 2001.

All significant transactions and balances between Companies now comprising the Group have been eliminated on combination.

The unaudited condensed combined financial statements of the Group are prepared in accordance with the requirements as set out in the GEM Listing Rules and the Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants. The accounting policies and basis for the preparation of the unaudited condensed combined financial statements of the Group are consistent with those used in the Accountants’ Report as set out in the Prospectus.

## 2. Turnover and revenue

Turnover represents the net invoiced value of the sales of goods and licence fees received after allowances for returns and trade discounts and after elimination of all significant intra-group transactions.

## 3. Taxation

Hong Kong profits tax has been provided at the rate of 16% on the three months and nine months ended 31 December 2002 (2001: 16%) on the estimated assessable profits arising in or derived from Hong Kong.

No provision for deferred taxation has been made in the combined financial statements as the effect of all timing differences is not material to the Group.

#### 4. Dividend

The Board does not recommend an interim dividend for the nine months ended 31 December 2002 (2001: nil)

#### 5. Earnings per share

The calculation of the basic earnings per share for the nine months ended 31 December 2002 is based on the Group's unaudited net profit attributable to shareholders of the Company for the nine months ended 31 December 2002 of approximately HK\$3,678,000 and on the weighted average number of 585,898,000 ordinary shares in issue during the period.

The calculation of the basic loss per share for the three months ended 31 December 2002 is based on the Group's unaudited net loss attributable to shareholders of the Company for the three months ended 31 December 2002 of approximately HK\$1,462,000 and on the weighted average number of 613,543,000 ordinary shares in issue during the period.

The calculation of the basic earnings per share for the three months and nine months ended 31 December 2001 is based on the Group's unaudited net profit attributable to shareholders of the Company and on the assumption that 572,000,000 shares were deemed to be in issue throughout each of the respective financial period.

#### 6. Reserves

	Share capital	Retained profits	Proposed final dividend	Share premium	Statutory reserve fund	Foreign exchange translation reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April 2001		1,537			42	12	1,591
Profit for the period		6,417					6,417
Transfer to statutory reserve fund		(524)			524		
As at 31 December 2001		<u>7,430</u>			<u>566</u>	<u>12</u>	<u>8,008</u>
As at 1st April 2002		9,051	2,000		522	12	11,585
New shares issued	21			(21)			
Capitalisation issue	5,699			(5,699)			
New shares issued for private placing	780			27,300			28,080
Issue expenses in connection with private placing				(6,742)			(6,742)
Profit for the period		3,678					3,678
Dividend paid			(2,000)				(2,000)
Transfer to statutory reserve fund		(268)			268		
As at 31 December 2002	<u>6,500</u>	<u>12,460</u>		<u>14,838</u>	<u>790</u>	<u>12</u>	<u>34,601</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Business review and outlook**

The Group is principally engaged in the research and development and provision of telecommunications software solutions for new telecommunications services and value-added telecommunications services as well as provision of other communication network solutions. The Company's shares were successfully listed on GEM on 13 November 2002 with net proceeds amounting to approximately HK\$21 million, marking a significant era of the Group.

During the period under review, the Group continued to fine-tune its version 3.0 MAGPlus Multi-Services Platform with satisfactory progress. Version 4.0 of the MAGPlus Multi-Services Platform was under the testing stage. Several existing customers of the Group were also invited to participate the test run of this new version. The Group expected to market the Version 4.0 in full force in the coming quarter.

In view of the continuing development of the telecommunications technology, new applications will be introduced to the market and a large number of new small to medium virtual telecommunications operators and value-added telecommunications service providers will emerge which will create a huge demand for telecommunications solutions. Recently, the Group has provided "Follow Me" new application software based on the Group's MAGPlus Multi-Services Platform to the customers for their further business developments. Moreover, the solutions provided by the Group can also be operated under UNIX and LINUX operating systems with upgrade ability.

On the other hand, the Group believes that the new VoIP solutions and the next generation network business application will have tremendous growth in the coming years and the Group has allocated more resources on the research and development with a view to capitalise the growing demand in this market.

In regard to the future, the Group will focus on the establishment of market channels of the Group's products and the promotional works on the "Global Link" brand name and the Group's products, including the provision of professional consultancy services to the new small to medium virtual telecommunications operators and value-added telecommunications service providers. In addition to the existing representative office established in Beijing which is responsible for the exploration of the northern part of PRC's market, the Group also intends to explore the other potential markets, such as, the south-western part of PRC, Taiwan, Singapore and Pakistan, in the coming future.

## **Financial review**

For the nine months ended 31 December 2002, the Group recorded a turnover of HK\$20.5 million, representing a decrease by approximately 18.3% as compared to the same period in 2001. Gross profit of HK\$8.1 million was recorded, representing a decrease by approximately 15.5% as compared with the same period in 2001. Gross profit margin increased from 38.3% to 39.6% while net profit margin decreased from 25.6% to 17.9% during the review period as compared with the same period in 2001. Net profit attributable to the shareholders of the Company amounted to approximately HK\$3.7 million, representing a decrease by 42.7%, as compared with the same period of 2001.

For the three months ended 31 December 2002, despite the increase in turnover by approximately 99.6% to HK\$5.0 million, the Group recorded a decrease in gross profit by 78.6% to HK\$0.4 million as compared with the same period in 2001. Gross profit margin decreased from 81.6% to 8.8% and a net loss attributable to shareholders of approximately HK\$1.5 million was incurred by the Group as compared to a net profit attributable to the shareholders of the Company amounted to approximately HK\$1.4 million being recorded in the same period of 2001.

During the review period, the Group incurred more costs in fine-tuning its solution products and further developing new solutions so as to increase in market competitiveness and prepare to capture more business in the coming years. These additional development costs caused the decrease in profit margin to the Group in the short run. However, the Group believes that the continuous product development strategy adopted by the Group will bring satisfactory returns to the Group after the matured solutions developed are fully marketed and promoted in the coming future. Besides, the increase in selling expenses and administrative expenses resulted from the increase in sales and the additional professional fee expenses incurred after listing respectively attributed the net loss attributable to shareholders recorded during the three months ended 31 December 2002.

## **DIRECTORS' INTEREST IN SECURITIES**

As at 31 December 2002, the interests of the Directors in the shares as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance") were as follows:

<b>Name</b>	<b>Number of Shares</b>	<b>Type of interest</b>	<b>Approximate percentage of holding</b>
Ma Yuanguang	170,530,000	personal	26.24%
Chau Siu Piu	100,330,000	personal	15.44%
Hu Zhi Jian	84,660,000	personal	13.02%
Li Guo Ping	58,120,000	personal	8.94%

## **DIRECTORS' RIGHT TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES**

Save as disclosed in this report, none of the Directors or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any of its body corporate, or had exercised any such right as at 31 December 2002.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS**

As at 31 December 2002, the following entity had or deemed to have interest of ten percent or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of Shares</b>	<b>Approximate percentage of holding</b>
Ma Yuanguang	170,530,000	26.24%
Chau Siu Piu	100,330,000	15.44%
Hu Zhi Jian	84,660,000	13.02%

Save as disclosed above, as at 31 December 2002, the Company has not been notified of any other interests other than the directors of the Company whose interests are set out above, representing ten percent or more of the entire issued share capital of the Company.



## OUTSTANDING SHARE OPTIONS

### (a) Pre-IPO Share Option Scheme

Pursuant to the Company's Pre-IPO share option scheme adopted and approved by its shareholders on 24 October 2002 (the "Pre-IPO Share Option Scheme"), the principal terms of which were set out in the Prospectus, there were 57,771,000 options (the "Options") granted under the Pre-IPO Share Option Scheme to the grantees thereunder ("Grantees") as at 31 December 2002. Below is a list of Grantees under the Pre-IPO Share Option Scheme:

<b>Name of grantees</b>	<b>Number of Shares under the Pre-IPO Share Option Scheme</b>
<i>Executive Directors</i>	
1. Ma Yuanguang	10,556,000
2. Chau Siu Piu	7,778,000
3. Hu Zhi Jian	8,889,000
4. Li Guo Ping	4,861,000
5. Lin Jiang	2,222,000
<i>Non-executive Director</i>	
6. Wing Kee Eng, Lee	2,778,000
<i>Independent non-executive Directors</i>	
7. Hu Tiejun	833,000
8. Professor Lu Ting Jie	833,000
<i>Advisers/consultants</i>	
9. Liu Bing	2,222,000
10. Zhang Xue Dan	278,000
11. Ge Jian Hua	222,000
12. Liang Zhi Da	139,000
13. Xian Hao Tong	139,000
14. Liang Hong Bin	83,000

<b>Name of grantees</b>	<b>Number of Shares under the Pre-IPO Share Option Scheme</b>
<i>Advisers/consultants</i>	
15. Zhang Fen Xiang	833,000
16. Gao Zhi Rong	833,000
17. Jin Li Yan	833,000
18. Shao Ming Rui	278,000
19. Wang Jian Dong	222,000
20. Zheng Hong Hong	167,000
21. Yang Lei	167,000
22. Lo Wai Kwok	833,000
23. Chan Wai Lun	417,000
24. Muhammad Luqman Kamil	833,000
25. Lim Boon Hua	278,000
26. Huang Jia Xing	139,000
27. Zhang Dan	138,000
<i>Senior management</i>	
28. Huang Zheng Chao	833,000
29. Feng Yan Fa	778,000
30. Li Guo Hui	611,000
31. 28 other employees of the Group	<u>7,745,000</u>
Total:	<u><u>57,771,000</u></u>

As at 31 December 2002, a total number of 57,771,000 Options were granted to the Grantees and the exercise per share is HK\$0.036.

Each of the Grantees to whom options has been conditionally granted under the Pre-IPO Share Option Scheme will be entitled to exercise (i) 50% of the Options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 12 months from 13 November 2002, and (ii) the remaining 50% of the Options granted to him/her (rounded down to the nearest whole number) at any time after 24 months from 13 November 2002 and in each case, not later than 10 years from the date of the grant of the Options.

The directors of the Company confirmed that all the Options were granted to the above Grantees on 24 October 2002. The directors of the Company further confirmed that, as at the date here of, no Options has lapsed and, accordingly, all Options granted have remained as outstanding.

Up to 27 January 2003, no Options have been exercised.

**(b) Post-IPO Share Option Scheme**

Pursuant to written resolutions passed by all the shareholders of the Company on 24 October 2002, the Company conditionally adopted the share option scheme, the principal terms of which are set out in the section head "Share Option Scheme" in appendix IV of the Prospectus. Up to 27 January 2003, no option has been granted by the Company pursuant to such share option scheme.

**DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Save as disclosed in this report, as at 31 December 2002, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such rights.

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

None of the member of the Group had purchased, sold or redeemed any of the shares of the Company during the nine months ended 31 December 2002.

## **SPONSOR'S INTERESTS**

Pursuant to a sponsorship agreement dated 31 October 2002 between the Company and Kingsway Capital Limited (“Kingsway”), Kingsway will be retained as the sponsor of the Company for the purpose of Chapter 6 of the GEM Listing Rules for the period from 13 November 2002 (being the listing date) to 31 March 2005. The Company agreed to pay an advisory fee to Kingsway for its provision of such services.

At the date of this report, none of Kingsway, its directors, employees nor associates had any shareholding interest in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group.

## **COMPETING INTERESTS**

None of the Directors nor the substantial shareholder nor the initial management shareholders (as defined in the GEM Listing Rules) of the Company nor their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 13 November 2002.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The audit committee has 2 members, namely Mr. Hu Tiejun and Professor Lu Ting Jie, both being independent non-executive directors of the Company. The Group's unaudited results for the nine months ended 31 December 2002 have been reviewed by the audit committee, who was of the opinion that such results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

By order of the Board  
**Ma Yuanguang**  
*Chairman*

Hong Kong, 27 January 2003