优能科技

Neolink Cyber Technology (Holding) Limited • Annual Report 2003

(Incorporated in the Cayman Islands with limited liability)

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This annual report, for which the directors of Neolink Cyber Technology (Holding) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this annual report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this annual report misleading; and (iii) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE PROFILE

DIRECTORS

Executive Directors

Mr. Wang Dingguo *(Chairman)*
Mr. Cai Zuping *(Vice chairman)*
Mr. Liu Taikang
Mr. Zhang Zheng

Non-executive Director

Mr. Chen Kang

Independent Non-executive Directors

Mr. Wong Ping Wong
Mr. Pan Boxin

AUTHORISED REPRESENTATIVES

Mr. Cai Zuping
Mr. Mak Wing Kit, Terry *ACCA, AHKSA*

AUDIT COMMITTEE MEMBERS

Mr. Wong Ping Wong
Mr. Pan Boxin

COMPLIANCE OFFICER

Mr. Zhang Zheng

COMPANY SECRETARY

Mr. Mak Wing Kit, Terry *ACCA, AHKSA*

QUALIFIED ACCOUNTANT

Mr. Mak Wing Kit, Terry *ACCA, AHKSA*

AUDITORS

RSM Nelson Wheeler
Certified Public Accountants
7th Floor
Allied Kajima Building
138 Gloucester Road
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank, Ltd.

LEGAL ADVISORS

On Hong Kong Law:
Chiu, Szeto & Cheng Solicitors
17th Floor
C.M.A. Building
64 Connaught Road Central
Hong Kong

On Cayman Islands Law:
Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681
George Town
Grand Cayman
British West Indies

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS

2811, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Cayman Islands
Bank of Butterfield International (Cayman) Limited
Butterfield House
Port Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

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

On behalf of the board of directors (the "Board"), I am pleased to announce the audited annual results of Neolink Cyber Technology (Holding) Limited and its subsidiaries (collectively, the "Group") for the year ended 31 December 2003.

Total turnover of the Group for the year ended 31 December 2003 was approximately HK$50 million, representing a growth of 67% from approximately HK$30 million of last year. The substantial improvement in the results was primarily attributable to a steady growth of the radio trunking systems integration and the implementation of a contract for the provision of equipment to China Unicom.

Profit attributable to shareholders for the year ended 31 December 2003 amounted to approximately HK$8.9 million and earnings per share was 1.57 Hong Kong cents. This was the first profitable year of the Group since its listing, which was attributable to the phenomenal growth in the turnover and gross profit of radio trunking systems integration, the Group's core business, and a steady growth in provision of telemedia-related and other value-added telecommunication-related technical services. The Group will continue its prudent strategy of consolidating and developing the existing core businesses and exploring new developments under effective control over operating costs, so as to build up a strong foundation for its long-term development for the best interests of the shareholders.

In early 2003, the Board of the Company approved a three-year development plan, which laid down the ultimate development and profit goals for the next three years. In 2003, being the first year of the plan period, a profit of HK$8.9 million was recorded, marking a good head start for the three-year plan.

Contrary to the remarkable growth in profits, administrative costs of the Group kept decreasing, with a slight drop of 4% for the year recorded as compared with that of last year. The decrease reflected the effective cost control by the Group and was attributable to the high integrity and efficiency of the management team. In addition, the Group also performed satisfactorily in terms of cash flow control. As at the date of announcement of the 2003 results, 78% of the receivables arising from the systems contracted and delivered to the relevant People's Republic of China (the "PRC") government departments in 2003 were received, a record high for the Group since its listing. The Group has maintained a short debtors' turnover period from radio trunking systems related technical services. During the year under review, the improvement in quality control and the early delivery of the Group's specialised systems to the PRC government were attributable to a short repayment period.

During the year, there was a change in the shareholding structure of Infonet Group Co. Ltd., the controlling shareholder of the Group. Mr. Cai Zuping reduced his shareholding in the Company and became the second largest shareholder. As such, Qing Jiang (Hong Kong) Holdings Limited ("Qing Jiang HK") became the largest shareholder. Accordingly, Mr. Wang Dingguo, the president of Hubei Qing Jiang Hydro-electric Development Co. Ltd. ("Hubei Qing Jiang"), became the chairman of the Company and Mr. Cai Zuping became the vice-chairman.

The Group achieved encouraging results for 2003, with its new businesses attaining remarkable progress along with a steady growth in the core operations. The Group successfully assisted Beijing Haoyuan Yingte Technology Development Co., Ltd. ("Haoyuan Yingte") in the application of the "Interactive Voice and Messages" using the wireless network connection number "12590" from China Mobile. In addition, the commercialisation of a new generation of digital radio trunking systems also commenced. Further, the Group has completed the preparation of technological and resources reserves for a vehicle call centre project, which would be launched by the Group in response to the growing consumer vehicle market in the PRC to provide specialised services for vehicle owners. The Board believes that the Group will attain further growth on top of the strong foundation it has built up in 2003.

On behalf of the Board, I would like to thank our management team and staff for their devoted efforts in 2003. In addition, I would also like to extend our deepest gratitude to our customers, business partners and shareholders for their invaluable support.

Wang Dingguo
Chairman

BUSINESS REVIEW AND OUTLOOK

Radio Trunking Systems Integration

During the year ended 31 December 2003, the Group's turnover from radio trunking systems integration was approximately HK$37 million which represented a sharp increase of 57% as compared to the previous year. The encouraging performance for the year under review was largely attributable to the secured orders, which increased more than 100% compared to the previous year, for specialised systems from the PRC government. The Group has made some progress in expanding its system user base from the existing government departments to other key government departments with similar specialised system since the Group has achieved much breakthrough in the major technical issues of the innovative digital encryption technologies including product development and field tests. Once the test of the product commercialisation achieves satisfactory results, the Group expects that the innovative digital encryption technologies for the mini-laptop terminal, which is compatible with the specialised systems, can capture solid new customers and pave a solid base for the Group to tap into overseas markets and other related niche markets.

In 2003, the Group has aggressively expanded into new business industries. The Group completed numerous orders and delivered the systems to end users, including provision of a specialised railway use dispatching system which was the Group's special equipment in railroad development by cooperation with a business partner, provision of a radio regulating system for Nanjing Meishan Steel Corporation signed with GoCow Information & Technology Co. Ltd., provision of a radio regulating system for South Sea oilfield to Guangdong Yuexun Enterprise Co., and provision of a set of vehicle regulating and diverting systems to Xi'an Rescuing Centre "120". The Group has secured approximately HK$19 million contracts on hand which will be completed in 2004, such as the provision of a radio regulating system for a harbour in Pakistan to Shanghai Construction Group Co., provision of a radio regulating system to Ningbo Beilun Harbour, provision of a set of radio trunking security messaging broadcasting system VMF (135M) (base station and broadcasting control equipment) to Chang Jiang Communications Administration, and the provision of specialised radio trunking systems and equipment and related technical services to the PRC government departments.

The execution of the contract for phase II system expansion under the Laos project was completed in 2003. Both the reliability and the quality of the Group's products and the project process have won the affirmation and praises from both the end user and the Group's business partner.

With the marketing effort of the Group in promoting the taxi radio regulating systems, satisfactory results have been achieved in 2003. In 2003, the Group completed the contracts by delivering "Global Positioning System" terminals to Beijing Qihua Taxi Company and by providing the upgrading of radio regulating systems to Shanghai Qiangsheng Holding Co. Ltd. ("Shanghai Qiangsheng"). Those systems have been used in Beijing and Shanghai. Shanghai Qiangsheng, which is one of the most influential vehicle hiring companies in the PRC and is ranked in the top position in radio regulating systems and management modes over the years. With innovative products, raised profile and market recognition in the product quality and reliability, the Group is able to attract and retain high-tier customers, such as Shanghai Qiangsheng, who is an important channel to allow the Group to speed up its expansions into the massive upgrade market and secure stable orders.

Development of Digital Trunking Systems

Gradually replacing and upgrading its existing products, the Group has devoted consistent efforts in the research and development of digital radio trunking systems in 2003. The generally recognised European system standard of "Tetra" has been adopted. The Group has solved the major technical issues of the "Tetra" system. The Group will continue to deploy more resources to commence the research and development of the hardware of this system in 2004 and is expected that the hardware of this system will be launched into the market in 2005.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Development of Digital Trunking Systems *(continued)*

In 2003, the Group has commenced to develop the technique of "RF" and steady progress has been made. Once the technical issues of "RF" are solved, a new generation of high quality full range of digitalised terminal products will be included into the Group's product portfolio as planned. The management of the Group believes that the digitalised terminal products will have another tremendous potential development in the industry.

Having had numerous years of operation and development in the PRC, the Group has become one of the leading providers in the industry of radio trunking systems integration. The Group has successfully diversified its system user base from the PRC government departments to enterprises and has taken great leaps towards digitalisation which will gradually cover the Group's whole product lines. The digitalisation will ensure the Group operates in an optimised mode to uplift our competitive edge and to leverage its existing capabilities to create sustainable long-term growth in revenue and profits.

Provision of Telemedia-related and Other Value-added Telecommunication-related Technical Services

The Group has continued to cooperate with Haoyuan Yingte to develop more diversified products in the provision of telemedia-related and other value-added telecommunication-related technical services. The usage volume of short messaging services, provided by Haoyuan Yingte's established operation centres in major cities in the PRC through the networks of mobile telecommunications operators, China Mobile and China Unicom, increased several folds when compared to 2002.

One of the significant business developments of the Group was to assist Haoyuan Yingte in the application of the "Interactive Voice and Messages" using the wireless network connection number "12590" from China Mobile. The "Interactive Voice and Messages" is a kind of value-added services which was newly launched by China Mobile in 2003 and can be used to provide various information products by the service provider based on the assigned platform from China Mobile. All the mobile phone subscribers of China Mobile are accessible to the connection number "12590" with low charge rate and without distance call or roaming charges. The value-added service providers are only required to make one connection within the mobile network and they are not required to invest in any more telecommunication equipment in other places. The Group is proud of the provision of both technical and business plan to Haoyuan Yingte which, being one of the sixteen service providers, has been successfully awarded the aforesaid service from China Mobile.

Development of Vehicle Call Centre

In conjunction with the rapidly growing vehicle market in the PRC, for more than two years, the Group has made concrete development in the project of information terminals applicable to urban transport vehicles.

1. *Assured operation model*

   The operation model of the "Information vehicle" is principally aimed at provision of service and is secondarily aimed at sales of specialised products. Through the Group's business partner's licensed nationwide call centres and licensed nationwide accessible number, this operation model provides information and services to the drivers mainly in four categories, namely driver's assistance, provision of third party support, bulk orders and "theme" service. The first category aims at attracting and establishing core members. The remaining categories aim at as an extension to expand into wide range coverage of non-core members.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Development of Vehicle Call Centre *(continued)*

2. *Technological reserve and product research and development*

   The Group has successfully developed a smart vehicle cruise terminal and a voice messaging terminal. The "Vedia318" voice messaging terminal was made according to the Group's own specification by a high-tech Korean company while the display and other operational hardware complementary to the "Bluetooth" and "Touch Screen" were made by the Group's experts.

   The Group has established a team of research and development in the call centres "Computer Telephone Integration" and "Geographic Information System" in Beijing.

3. *Cooperation*

   In 2003, the Group signed an agreement with one of the largest US automotive makers to try the Group's two different kinds of vehicle terminals to be installed in the automobiles. Numerous meetings were also held between the Group and the automotive maker to discuss outsourcing of the service of vehicle call centre.

FINANCIAL REVIEW

Financial performance

The turnover of the Group was approximately HK$49,637,000 for the year ended 31 December 2003, representing 67% increase as compared to last year. Radio trunking systems integration contributed a turnover of approximately HK$36,835,000 which is approximately 74% of the total turnover of the Group. The turnover from radio trunking systems integration itself increased by almost 57% as compared to the previous year. Provision of telemedia-related and other value-added telecommunication-related technical services recorded a turnover of approximately HK$6,224,000 which is almost the same as last year. Others turnover for the amount of approximately HK$6,578,000 represents a one-off transaction for the sale of monitor systems with a gross profit margin of 3% in 2003.

The gross profit for the year under review was approximately HK$27,351,000, representing an increase of 55% from last year. Excluding the gross profit margin of the abovementioned one-off transaction, the gross profit margin of the Group was 63% (2002: 59%).

Other revenue increased by approximately HK$1,469,000 mainly due to the refund of PRC value-added tax.

Distribution costs for the year ended 31 December 2003 increased to approximately HK$4,114,000 from HK$3,317,000 last year. The increase in distribution costs, in line with the growth in turnover of the Group, was due to the increased marketing expenses and increase of sales commission during the year under review. Administrative expenses decreased by 4% to HK$15,575,000 in 2003 (2002: HK$16,184,000), primarily as a result of continuing tight cost management.

The decrease in other operating expenses was mainly attributable to the decrease of provision for bad and doubtful debts in 2003.

The significant increase in revenue, together with the savings in operating costs, contribute to the Group's first profit attributable to shareholders of HK$8,869,000, compared to a loss of HK$2,527,000 in 2002.

FINANCIAL REVIEW *(continued)*

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flow and banking facilities. To cope with the expanded business volume, the Group has established new relationship with financial institutions in the PRC. The bank borrowings of the Group as at 31 December 2003 amounted to approximately HK$4,673,000 (2002: HK$2,804,000) which are repayable within one year, are interest-bearing at prevailing market rates and are denominated in Renminbi ("RMB"). The banking facilities arranged by the Group reflected our strategy to fund the Group's operations in local trading currency. As a result of increase in such bank borrowing as compared to previous year, the finance cost of the Group for the year under review increased to approximately HK$302,000 from approximately HK$132,000 for the year ended 31 December 2002.

As at 31 December 2003, the Group has a low gearing ratio of 0.16 (2002: 0.14), calculated on the basis of the Group's bank borrowings over shareholders' funds. Total bank and cash balances was approximately HK$3,289,000 (2002: HK$4,871,000). Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

Capital structure

Except for the increase in the Group's bank borrowings by HK$1,869,000 to approximately HK$4,673,000 during the year, there was no change in the capital structure of the Group as at 31 December 2003 as compared with that as at 31 December 2002.

Significant investment

During the year under review there was no significant investment held by the Group.

Charge on group assets

As at 31 December 2003, certain land and buildings under long leases outside Hong Kong with net book value of approximately HK$1,419,000 were pledged to a bank to secure banking facilities.

Foreign exchange exposure

Since the Group's sales, purchases and loans were substantially denominated in either RMB or HK$, the directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

Contingent liabilities

As at 31 December 2003, the Board was not aware of any material contingent liabilities.

Staff and remuneration policies

As at 31 December 2003, the Group employed a workforce of approximately 270, the majority of whom were employed in the PRC. Staff cost, excluding directors' emoluments, amounted to approximately HK$9,722,000. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution. Other benefits include contributions to pension scheme and medical insurance.

FINANCIAL REVIEW *(continued)*

Future plans for material investments or capital assets

The Group did not have any details of future plan for material investments or capital assets as at 31 December 2003.

Acquisitions and disposals of subsidiaries and affiliated companies

The Group had no acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2003.

EXECUTIVE DIRECTORS

Mr. WANG Dingguo, aged 61, is the chairman of the Company. Mr. Wang is also the president of Hubei Qing Jiang, general manager of Hubei Province Qing Jiang Hydro-electric Investment Company and chairman of Qing Jiang HK. Mr. Wang graduated from the Industrial Institute of Central China in 1968 with major in thermal energy. Mr. Wang is very experienced in national economic management, theories and research of investment management and enterprise management. Mr. Wang was also a member of the 9th and 10th National People's Congress and the Chairman of the Hubei Province Enterprise Association. Mr. Wang was the Deputy Secretary of the People's Government of Hubei Province, a member of the Economic Restructuring Committee of Hubei Province and the officer-in-charge of the Policy Research Office of Hubei Province. Mr. Wang is a part-time professor of the University of Science & Technology of Central China and the Wuhan University.

Mr. CAI Zuping, aged 46, is the vice chairman of the Company. Mr. Cai is one of the founders of the Group and is responsible for the overall strategic planning of the Group and the planning of the Group's business development in the PRC. Mr. Cai graduated from an electronic engineering college in Taiyuan, Shanxi, the PRC and since then, has worked in communication related government departments in the PRC for six years. Mr. Cai founded the Group in 1990 and has over 26 years of experience in the communications industry.

Mr. LIU Taikang, aged 60, is an executive director of the Company. Mr. Liu is also a director and the general manager of Hubei Qing Jiang, an executive director of Qing Jiang HK. Mr. Liu graduated from the Wuhan University of Surveying Technology. Mr. Liu is very experienced in enterprise management. Mr. Liu is a professorial senior engineer. Mr. Liu has extensive research on Global Positioning System (GPS). Mr. Liu is an executive committee member of the China Hydro-Electric Engineering Association.

Mr. ZHANG Zheng, aged 42, is an executive director and compliance officer of the Company. Mr. Zhang is responsible for the day-to-day management of the Group's businesses. Mr. Zhang holds a bachelor degree in engineering from Ceramics College of the PRC and has over 19 years of experience in computer and communications. Mr. Zhang joined the Group in 1992. Prior to joining the Group, Mr. Zhang worked for the Hangzhou Automation Research Institute and subsequently worked in a senior management position for five years in a Sino-foreign equity joint venture computer company in the PRC.

NON-EXECUTIVE DIRECTOR

Mr. CHEN Kang, aged 44, was appointed as a non-executive director of the Company on 3 July 2002. Mr. Chen graduated from Beijing University of Chemical Technology, the PRC and Newcastle University of England. Mr. Chen has over 16 years of experience in the fields of chemical technology, information technology and telecommunications. Mr. Chen is currently a director of Smartrade Telecommunications Technology Limited engaged in PRC telecommunications business and a director of Smart Act Software Company Limited engaged in PRC software development.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Ping Wong, aged 40, is an independent non-executive director of the Company. Mr. Wong has been engaged in telecommunications management since Mr. Wong graduated from Beijing University of Postal Telecommunications in 1984. Mr. Wong is currently a director of a company engaged in PRC-Hong Kong telecommunications business.

Mr. PAN Boxin, aged 61, is an independent non-executive director of the Company. Mr. Pan is currently a director who participates in the operations of the Shanghai Diamond Exchange Market which engages in diamond trading and verification.

SENIOR MANAGEMENT

Mr. LI Chaobin, aged 50, is the chief executive officer of the Company. Mr. Li joined the Group in 2001 and is responsible for the strategic development and management of the Group. Mr. Li is also the director and deputy general manager of Hubei Qing Jiang, the director and general manager of Shenzhen Qing Jiang Investment & Development Company Limited, and the president of Yi Chang Qing Jiang Industry Company Limited. Mr. Li, worked in government departments more than ten years, is a senior officer of economic administration and has over 23 years of experience in project investment and corporate management.

Mr. LU Chunming, aged 47, is the vice president of the Company. Mr. Lu is also the general manager of Beijing Neolink Information Technology Company Limited and is responsible for the management of telemedia business of the Group. Mr. Lu graduated from Beijing Teacher's University in the PRC and joined the Group in 1995. Prior to joining the Group, Mr. Lu worked for the Post and Telecommunication Science Research Institute and Authorities Service Bureau of the former MPT. Mr. Lu has over 23 years of experience in the communications industry.

Mr. CHEN Huanming, aged 39, is the vice president of the Company. Mr. Chen is also the general manager of both Hangzhou Neolink Communication Equipment Company Limited and Neolink Electronic Technology (Beijing) Company Limited. Mr. Chen is responsible for the management of radio trunking systems integration business of the Group. Mr. Chen holds a bachelor degree in electronic engineering from Zhejiang University in the PRC and joined the Group in 1992. Mr. Chen has over 17 years of experience in the electronics and communications industries.

Mr. MI Lei, aged 40, is the head of the research centre of Hangzhou Neolink Communication Equipment Company Limited and is responsible for the research and development of new products for the Group. Mr. Mi graduated from Zhejiang University in the PRC with a bachelor degree in electronic engineering. Mr. Mi joined the Group in 1996 and has over 18 years of experience in the electronics and communications industries.

Mr. MAK Wing Kit, Terry, aged 35, is the finance manager, company secretary and qualified accountant of the Company. Mr. Mak joined the Group in 2002 and is in charge of the accounts department and corporate secretarial division. Mr. Mak received a Master's degree in financial economics from Boston University, the United States. Mr. Mak is a member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Mak has over 11 years of experience in the accounting and auditing field.

The directors of the Company ("Directors") submit herewith their annual report together with the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Group is principally engaged in radio trunking systems integration and provision of telemedia-related and other value-added telecommunication-related technical services.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 and the state of the affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 53.

The Directors do not recommend the payment of a dividend for the year.

PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2003 are set out in note 14 to the financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 13 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in statement of changes in equity on pages 26 and 27.

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company has no reserves available for distribution to shareholders (2002: Nil) in accordance with the Companies Law of the Cayman Islands and the Company's Articles of Association.

BANK LOANS

Particulars of the bank loans of the Group as at 31 December 2003 are set out in note 22 to the financial statements.

DONATION

The Group did not make any charitable donation during the year.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year, together with reasons therefore, are set out in note 23 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 54.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

– the largest supplier	33%
– five largest suppliers combined	76%

Sales

– the largest customer	28%
– five largest customers combined	87%

The largest and second largest customers of the Group are Hainan Baotong Communication System Co. Ltd. ("Baotong") and Haoyuan Yingte respectively.

Save as mentioned above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2003.

DIRECTORS

The Directors who held office during the year were:

Mr. Wang Dingguo
Mr. Cai Zuping
Mr. Liu Taikang
Mr. Zhang Zheng
Mr. Chen Kang#
Mr. Wong Ping Wong*
Mr. Pan Boxin*

Non-executive director
* *Independent non-executive director*

One third of the Directors shall retire at the forthcoming annual general meeting in accordance with Article 87 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 25 July 2000 (in the cases of Mr. Cai Zuping and Mr. Zhang Zheng) and 20 September 2001 (in the cases of Mr. Wang Dingguo and Liu Taikang) respectively. Mr. Chen Kang, being the non-executive director, has entered into a service contract with the Company for a term of three years commencing from 3 July 2002.

The service contract of each of the executive directors and the non-executive director shall continue thereafter unless terminated by not less than three months' notice in writing served by either party to the other.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 9 to 10 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 28 to the financial statements, no contracts of significance in relation to the Company's business to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which any Directors 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 minimum standards of dealing by directors of the Company as referred to in Rule 5.40 of the GEM Listing Rules, were as follows:

(a) Long positions in ordinary shares of the Company

Name	Type of interest	Number of shares	Approximate percentage of issued share capital
Mr. Cai Zuping *(Note 1)*	Corporate	388,440,296	68.87%
Mr. Zhang Zheng *(Note 2)*	Corporate	388,440,296	68.87%

Notes:

1. Mr. Cai Zuping, an executive director and the vice chairman of the Company, holds his deemed interest in the Company through his shareholding of 23.82% in Infonet Group Co., Ltd. ("Infonet") which holds 68.87% of the total issued share capital of the Company.

2. Mr. Zhang Zheng, an executive director of the Company, has interest in the Company through his shareholding of 5.86% in Infonet.

(b) Long positions in underlying shares of the Company

Pursuant to the share option scheme of the Company adopted on 13 July 2000 (the "Old Scheme"), share options of the Company ("Options") were granted to an executive director and certain employees of the Group on 5 January 2001.

An extraordinary general meeting of the Company was held on 17 April 2003 (the "EGM"). An ordinary resolution to approve the termination of the Old Scheme and the adoption of a new share option scheme ("New Scheme") were duly passed by the shareholders of the Company at the EGM. Options to subscribe for an aggregate of 30,000,000 shares of the Company granted to Mr. Zhang Zheng, Mr. Lu Chunming and Mr. Chen Huanming were cancelled under the Old Scheme. No Options under the New Scheme had been granted, exercised, cancelled, or lapsed during the year ended 31 December 2003.

Save as disclosed above, as at 31 December 2003, none of the directors and chief executives of the Company had registered an interest or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above and the "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of advancing the interests of the Company and its shareholders by enabling the Company to grant Options to attract, retain and reward all the directors, any employee, any consultant or adviser of or to any company in the Group or any invested entity and any supplier of goods or services to any member of the Group or any invested entity, any person or entity that provides research, development or other technological support to the Group or any invested entity, and for the purposes of the New Scheme ("Eligible Person(s)") for their contribution to the Group and by enhancing such Eligible Persons' contribution to increase profits.

The New Scheme became effective for a period of 10 years commencing on 17 April 2003. Under the New Scheme, the directors of the Company may at their discretion to grant any Eligible Person to subscribe for the shares of the Company ("Share") at the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. The offer of a grant of Option shall remain open for acceptance within 21 days from the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of the Option. The exercise period of the Option must not be more than 10 years from the date of grant of the Option. However, no Option may be exercised before the first anniversary of the date on which the Option is granted.

The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Scheme and any other schemes in force from time to time must not in aggregate exceed 30% of the Share in issue from time to time. The total number of Shares which may be issued upon exercise of all Options to be granted under the New Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the EGM.

The total number of Shares available for issue under the New Scheme as at 31 December 2003 was 56,400,000, representing 10% of the issued share capital of the Company as at 31 December 2003.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31 December 2003, the following persons (other than the director and the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Name	**Type of interest**	**Number of shares**	**Approximate percentage of issued share capital**
Infonet *(Note 1)*	Corporate	388,440,296	68.87%
Qing Jiang HK *(Note 2)*	Corporate	388,440,296	68.87%
Mr. Wang Yuan *(Note 3)*	Corporate	388,440,296	68.87%
Mr. He Yuefeng *(Note 3)*	Corporate	388,440,296	68.87%

Notes:

1. Infonet is a company incorporated in the British Virgin Islands which is beneficially owned, among others, as to 26% by Qing Jiang HK, as to 23.82% by Mr. Cai Zuping, as to 19.93% by Mr. Wang Yuan and as to 13.04% by Mr. He Yuefeng.

2. Qing Jiang HK, a company incorporated in Hong Kong, has interest in the Company through its shareholding of 26% in Infonet. Mr. Wang Dingguo and Mr. Liu Taikang, the executive directors of the Company, are the shareholders of the Qing Jiang HK and hold the shares of Qing Jiang HK on trust for Hubei Qing Jiang a state-owned corporation in the PRC.

3. Mr. Wang Yuan and Mr. He Yuefeng are independent third parties not connected with the directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. They are not involved in the management of the Company and its subsidiaries. Mr. Wang Yuan and Mr. He Yuefeng have interest in the Company through their shareholdings of 19.93% and 13.04% in Infonet respectively.

Save as disclosed above, as at 31 December 2003, the Company had not been notified of any other person or company (other than a director or chief executive of the Company) who had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

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.

PENSION SCHEME ARRANGEMENT

Particulars of the pension scheme arrangements are set out in note 27 to the financial statements.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year, which do not constitute connected transactions under GEM Listing Rules, are disclosed in note 28 to the financial statements.

(1) Continuing connected transactions

(a) As disclosed in the prospectus of the Company dated 18 July 2000, the Stock Exchange conditionally granted waivers to the Company from strict compliance with the relevant requirements under the GEM Listing Rules in respect of the following continuing transactions. Those waivers expired on 24 July 2003.

(i) On 11 November 1999, a subsidiary of the Company entered into a technical services agreement with Haoyuan Yingte regarding the provision of telemedia-related and other value-added telecommunication-related technical services by the Group to Haoyuan Yingte. As at 31 December 2003, Haoyuan Yingte was a company incorporated in the PRC and was beneficially owned as to 50.6% by Ms. Cai Qianping, the sister of Mr. Cai Zuping, an executive director of the Company, and as to 49.4% by Hubei Qing Jiang. During the period from 1 January 2003 to 23 July 2003, the total service income earned by the Group amounted to approximately HK$2,465,000.

(ii) On 11 November 1999, a subsidiary of the Company entered into a technical services agreement with Beijing Haoyuan Sky Internet Co. Ltd. ("Haoyuan Sky Internet") regarding the provision of internet solutions and related technical services by the Group to Haoyuan Sky Internet. Haoyuan Sky Internet is 50% held by a sister of Mr. Cai Zuping, a director of the Company and 49% held by Jin Jiang Dao. During the period from 1 January 2003 to 23 July 2003, no service income was earned by the Group.

(iii) Certain subsidiaries of the Company have sold certain specialised government use radio trunking systems and equipment, and rendered related technical services to Baotong for a total consideration of approximately HK$5,926,000 during the period from 1 January 2003 to 23 July 2003. As at 31 December 2003. Baotong was a company established in the PRC and was owned as to 55% by Shenzhen Neolink Communication Technology Co., Ltd. ("Shenzhen Communication") which was beneficially owned by Ms. Cai Qianping, the sister of Mr. Cai Zuping, an executive director of the Company, and Hubei Qing Jiang in equal shares.

CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

(b) Ongoing connected transactions approved by the independent shareholders of the Company on 9 October 2003.

At the extraordinary general meeting of the Company held on 9 October 2003, the ordinary resolution approving the Ongoing Connected Transactions (as defined and more particularly described in the circular of the Company to the Shareholders dated 17 September 2003) was duly passed by the independent Shareholders, in relation to the continuation of the Haoyuan Yingte Transactions for a three-year period and the Baotong Transaction up to 31 December 2004 which are set out below:

(i) On 11 November 1999, Beijing Neolink Information Technology Company Limited ("Beijing Neolink IT") entered into a technical services agreement with Haoyuan Yingte regarding the provision of telemedia-related and other value-added telecommunication-related technical services by the Group to Haoyuan Yingte. As at 31 December 2003, Haoyuan Yingte was a company incorporated in the PRC and was beneficially owned as to 50.6% by Ms. Cai Qianping, the sister of Mr. Cai Zuping, an executive director of the Company, and as to 49.4% by Hubei Qing Jiang. During the period from 9 October 2003 to 31 December 2003, the total service income earned by the Group amounted to approximately HK$3,892,000.

(ii) Certain subsidiaries of the Company have sold certain specialised government use radio trunking systems and equipment, and rendered related technical services to Baotong for a total consideration of approximately HK$8,177,000 during the period from 9 October 2003 to 31 December 2003. As at 31 December 2003, Baotong was a company established in the PRC and was owned as to 55% by Shenzhen Communication which was beneficially owned by Ms. Cai Qianping, the sister of Mr. Cai Zuping, an executive director of the Company, and Hubei Qing Jiang in equal shares.

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that the transactions have been entered into: (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

(2) One-off connected transaction

On 5 August 2003, Neolink Huadian Electronic Technology (Shenzhen) Company Limited ("Neolink Huadian") entered into an agreement with Haoyuan Yingte in relation to the sale of a monitor system by Neolink Huadian to Haoyuan Yingte for a total consideration of approximately HK$7,696,000 (including PRC value-added tax). The monitor system was part-assembled by the Group using separate components acquired by the Group and was delivered to its end-user, China United Telecommunication Corporation, after assembly by Haoyuan Yingte. This transaction was part of the Group's normal and ordinary business and was conducted on normal commercial terms. The terms and conditions of this transaction had been reached after arm's length negotiations between the Company and Haoyuan Yingte. As the consideration for this one-off connected transaction was less than the higher of HK$10,000,000 or 3% of the consolidated net tangible asset value of the Group as at 30 June 2003, the transaction was subject to the reporting and announcement requirements of Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS *(continued)*

(3) Other connected transactions

The following transactions are exempted from the reporting, announcement and Shareholders' approval requirements of Chapter 20 of the GEM Listing Rules:

(a) On 1 January 2003, the Company entered into a service agreement with Qing Jiang HK regarding the provision of office administration services by the Company to Qing Jiang HK. The total service income earned by the Company amounted to HK$10,000 for the year ended 31 December 2003.

(b) On 1 January 2003, the Company entered into a consultancy service agreement with Qing Jiang HK under which Qing Jiang HK provided the consultancy services regarding to marketing of radio trunking systems at a consideration of HK$180,000 during the year.

(c) During the year, Neolink Huadian was advanced a loan of RMB3,930,000 (equivalent to HK$3,673,000) from Shenzhen Communication, which is beneficially owned by Ms. Cai Qianping, the sister of Mr. Cai Zuping, an executive director of the Company, and Hubei Qing Jiang in equal shares, to finance the working capital requirement of Neolink Huadian. The loan was unsecured, bore interest at 5.31% per annum and would be required to be repaid on 15 July 2004. The interest paid or payable to Shenzhen Communication for the year amounted to approximately HK$90,000.

COMPETING INTERESTS

The Directors are not aware of, as at 31 December 2003, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events which have been taken place subsequent to the balance sheet date are set out in note 29 to the financial statements.

AUDIT COMMITTEE

In compliance with Rule 5.23 to 5.25 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which describe the authority and duties.

The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control systems. The audit committee comprises two independent non-executive directors of the Company, namely Mr. Wong Ping Wong and Mr. Pan Boxin who collectively held four meetings during the current financial year. The Group's audited results for the year ended 31 December 2003 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

BOARD PRACTICES AND PROCEDURES

During the year ended 31 December 2003, 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.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. RSM Nelson Wheeler as auditors of the Company. RSM Nelson Wheeler replaced PricewaterhouseCoopers when it resigned in February 2002.

On behalf of the board

Wang Dingguo
Chairman

Hong Kong, 23 March 2004

RSM! Nelson Wheeler
羅申美會計師行
Certified Public Accountants

TO THE SHAREHOLDERS OF
NEOLINK CYBER TECHNOLOGY (HOLDING) LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion solely to you, as a body, 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 Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2003 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

23 March 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

	Note	2003 HK$'000	2002 HK$'000
Turnover	4	**49,637**	29,669
Cost of sales and services		**(22,286)**	(12,053)
Gross profit		**27,351**	17,616
Other revenues	4	**2,897**	1,428
Distribution costs		**(4,114)**	(3,317)
Administrative expenses		**(15,575)**	(16,184)
Other operating expenses		**(934)**	(2,117)
Profit/(loss) from operations	6	**9,625**	(2,574)
Finance costs	7	**(302)**	(132)
Profit/(loss) before taxation		**9,323**	(2,706)
Taxation	8	**(408)**	–
Profit/(loss) after taxation		**8,915**	(2,706)
Minority interests		**(46)**	179
Profit/(loss) attributable to shareholders	9	**8,869**	(2,527)
		HK cents	*HK cents*
Earnings/(loss) per share	11	**1.57**	(0.45)

The notes on pages 30 to 53 form an integral part of these financial statements.

	Note	2003 HK$'000	2002 HK$'000
Non-current assets			
Fixed assets	*13(a)*	**5,104**	4,008
Current assets			
Inventories	*15*	**6,269**	4,566
Trade receivables	*16*	**7,831**	6,207
Prepayments, deposits and other receivables		**8,821**	3,896
Amounts due from related companies	*17*	**19,805**	12,556
Bank and cash balances	*18*	**3,289**	4,871
		46,015	32,096
Less: **Current liabilities**			
Trade payables	*19*	**4,796**	4,769
Accruals and other payables		**7,022**	5,911
Deposit received		**1,347**	–
Amount due to ultimate holding company	*20*	**1,299**	2,957
Amounts due to related companies	*21*	**1,932**	257
Taxation payable		**230**	–
Secured bank loans	*22*	**4,673**	2,804
		21,299	16,698
Net current assets		**24,716**	15,398
Total assets less current liabilities		**29,820**	19,406
Non-current liabilities			
Minority interests		**4**	(42)
NET ASSETS		**29,816**	19,448

The notes on pages 30 to 53 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2003

	Note	2003 HK$'000	2002 HK$'000
Capital and reserves			
Share capital	23	**56,400**	56,400
Reserves		**(26,584)**	(36,952)
SHAREHOLDERS' FUNDS		**29,816**	19,448

Approved by the Board of Directors on 23 March 2004

Cai Zuping
Director

Zhang Zheng
Director

The notes on pages 30 to 53 form an integral part of these financial statements.

	Note	2003 HK$'000	2002 HK$'000
Non-current assets			
Fixed assets	*13(b)*	**85**	189
Investments in subsidiaries	*14*	**21,803**	26,970
		21,888	27,159
Current assets			
Deposits and other receivables		**163**	184
Bank and cash balances		**93**	29
		256	213
Less: **Current liabilities**			
Amount due to ultimate holding company	*20*	**1,252**	2,910
Amount due to a related company	*21*	**203**	164
Accruals and other payables		**847**	895
		2,302	3,969
Net current liabilities		**(2,046)**	(3,756)
NET ASSETS		**19,842**	23,403
Capital and reserves			
Share capital	*23*	**56,400**	56,400
Reserves		**(36,558)**	(32,997)
SHAREHOLDERS' FUNDS		**19,842**	23,403

Approved by the Board of Directors on 23 March 2004

Cai Zuping
Director

Zhang Zheng
Director

The notes on pages 30 to 53 form an integral part of these financial statements.

Group

	Share capital HK$'000	Share premium HK$'000	Merger reserve *(Note (ii))* HK$'000	Revaluation reserve HK$'000	General reserve *(Note (i))* HK$'000	Enterprise expansion fund *(Note (i))* HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002	57,880	39,529	(46,815)	400	2,247	50	(81)	(17,234)	35,976
Shares repurchased and cancelled	(1,480)	(12,536)	–	–	–	–	–	–	(14,016)
Loss for the year attributable to shareholders	–	–	–	–	–	–	–	(2,527)	(2,527)
Reserves transferred upon disposal of land and buildings under long leases outside Hong Kong	–	–	–	(93)	–	–	–	93	–
Transfer to general reserve	–	–	–	–	1,634	–	–	(1,634)	–
Exchange differences	–	–	–	–	–	–	15	–	15
At 31 December 2002	56,400	26,993	(46,815)	307	3,881	50	(66)	(21,302)	19,448
Profit for the year attributable to shareholders	–	–	–	–	–	–	–	8,869	8,869
Reserves transferred upon disposal of land and buildings under long leases outside Hong Kong	–	–	–	(13)	–	–	–	13	–
Surplus on revaluation of land and buildings under long leases outside Hong Kong	–	–	–	1,489	–	–	–	–	1,489
Transfer to general reserve	–	–	–	–	2,041	–	–	(2,041)	–
Exchange differences	–	–	–	–	–	–	10	–	10
At 31 December 2003	56,400	26,993	(46,815)	1,783	5,922	50	(56)	(14,461)	29,816

The notes on pages 30 to 53 form an integral part of these financial statements.

Note:

(i) The general reserve and enterprise expansion fund are set up by subsidiaries established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the board of directors of the PRC subsidiaries, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.

(ii) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the Reorganisation (note 3(a)(ii)).

Company

	Share capital *HK$'000*	Share premium *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2002	57,880	39,529	(15,202)	82,207
Shares repurchased and cancelled	(1,480)	(12,536)	–	(14,016)
Loss for the year	–	–	(44,788)	(44,788)
At 31 December 2002	56,400	26,993	(59,990)	23,403
Loss for the year	–	–	(3,561)	(3,561)
At 31 December 2003	56,400	26,993	(63,551)	19,842

Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to a solvency test on the Company and the provisions of the Articles of Association of the Company.

The notes on pages 30 to 53 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	2003 *HK$'000*	2002 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	**9,323**	(2,706)
Adjustments for:		
Interest income	**(36)**	(86)
Interest on bank and other loans	**302**	132
Depreciation of fixed assets	**1,324**	1,440
Gain on disposal of fixed assets	**(133)**	(260)
Increase in inventories	**(1,703)**	(992)
Operating profit/(loss) before working capital changes	**9,077**	(2,472)
(Increase)/decrease in trade receivables, prepayments, deposits and other receivables	**(6,549)**	4,355
Increase in amounts due from related companies	**(5,574)**	(4,803)
Increase in trade payables, accruals and other payables and deposit received	**2,485**	382
(Decrease)/increase in amount due to ultimate holding company	**(1,658)**	1,292
Cash outflow from operations	**(2,219)**	(1,246)
Interest on bank and other loans	**(302)**	(132)
Income tax paid	**(178)**	(217)
Net cash outflow from operating activities	**(2,699)**	(1,595)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	**(1,069)**	(940)
Sales proceeds of fixed assets	**271**	473
Interest income	**36**	86
Refund of payment of non-trading securities	**–**	934
Net cash (outflow)/inflow from investing activities	**(762)**	553

The notes on pages 30 to 53 form an integral part of these financial statements.

	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in bank loans	**4,673**	2,804
Repayment of bank loans	**(2,804)**	(2,897)
Net cash inflow/(outflow) from financing activities	**1,869**	(93)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,592)**	(1,135)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**10**	15
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,871**	5,991
CASH AND CASH EQUIVALENTS AT END OF YEAR	**3,289**	4,871
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**3,289**	4,871

The notes on pages 30 to 53 form an integral part of these financial statements.

1. GENERAL

The Company was incorporated in the Cayman Islands on 13 October 1999 as an exempted Company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the GEM of the Stock Exchange since 25 July 2000. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

The accounting policies used in the preparation of the financial statements are consistent with the previous year except that the Company has adopted the following revised Hong Kong Statement of Standard Accounting Practice ("SSAP") which became effective for the current financial year.

SSAP 12 (revised) : Income taxes

The changes to accounting policies and the effects are as follows:

SSAP 12 (revised)

The principal effect of the implementation of the revised statement is in relation to deferred tax. In previous years partial provision was made for deferred tax using income statement liability method, that is, a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. The revised statement requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements, the new accounting policy has been adopted retrospectively, but the adoption of the standard has not had any material effect on the results for the current year or prior accounting periods.

3. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

(i) The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

(ii) On 13 July 2000, the Company became the holding company of other companies comprising the Group pursuant to a group reorganisation ("the Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated results of the Group for the year ended 31 December 1998 include the results of the Company and its subsidiaries with effect from 1 January 1998 or since their respective date of incorporation, where that is a shorter period, as if the current group structure had been in existence throughout the year ended 31 December 1998.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the income statement 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 are eliminated on consolidation.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has 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 majority of votes at the meetings of the board of directors.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the income statement and also any related accumulated foreign currency translation reserve.

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

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

The merger reserve of the Group includes the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of the shares issued by the Company in exchange thereof, and also any existing balance on the share premium account of the subsidiaries.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

Leasehold land and buildings are stated at valuation, being the fair value at the date of revaluation, less subsequent accumulated amortisation or depreciation and any impairment losses. Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, and is determined on the basis of existing use. Independent valuations are performed periodically. In the intervening years, the directors review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and thereafter debited to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

Amortisation of leasehold land is calculated to write off its valuation over the unexpired periods of the leases on a straight-line basis. The principal annual rate used for this purpose is 1% per annum.

Depreciation of leasehold buildings is calculated to write off their valuation on a straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is the shorter. The principal annual rate used for this purpose is 5% per annum.

Other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	33% to 50%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Computer equipment	33%
Motor vehicles	33%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to accumulated losses and is shown as a movement in reserves.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identified and a market exists for the product such that it is probable for it will be profitable. Such development costs are recognised as assets 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 are recognised. During the year, all research and development costs are expensed in the income statement.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(f) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the cash flow statement, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(g) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(h) Revenue recognition

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

Revenue from the provision of technical services is recognised when the services are rendered.

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(j) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment no longer exists or has decreased. The reversal is recorded in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that take a substantial period of time to develop for their intended uses or sale are capitalised as part of the carrying value of that asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

During the year, all borrowing costs are expensed as incurred.

(l) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statements' items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary, the related cumulative exchange difference is included in the income statement as part of the gain or loss on disposal.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognsied to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(n) Employee benefits

(i) The Group's contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the income statement as incurred.

(ii) When the Company grants employees options to acquire shares of the Company, the option exercise price equals the market price of the underlying shares at the date of the grant and no employee benefit cost or obligation is recognised at that time. When the options are exercised, equity is increased by the amount of the proceeds received.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Where the effect of the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

(q) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

4. TURNOVER AND REVENUES

The Group is principally engaged in radio trunking systems integration and provision of telemedia-related and other value-added telecommunication-related technical services. Revenues recognised are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Turnover		
Technical service income		
Telemedia-related and other value-added telecommunication-related technical services	**6,224**	6,230
Sales of goods		
Radio trunking systems integration	**36,835**	23,439
Others		
Sales of monitor systems	**6,578**	–
	49,637	29,669
Other revenues		
Interest income	**36**	86
Others	**2,861**	1,342
	2,897	1,428
Total revenues	**52,534**	31,097

5. SEGMENT INFORMATION

The Group carries out its activities mainly in the PRC. For management purposes, the Group is currently organised into two divisions – radio trunking systems integration and provision of telemedia-related and other value-added telecommunication-related technical services. Others represented sales of monitor systems. These divisions are the bases on which the Group reports its primary segment information. No geographical segment information is presented as secondary segment information as substantially all the Group's turnover and contribution to operating results were carried out in the PRC. An analysis of the Group's revenue and results for the year and segment assets by principal activity is as follows:

For the year ended 31 December 2003

	Group			
	Radio trunking systems integration *HK$'000*	**Provision of telemedia-related and other value-added telecommunication-related technical services** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
TURNOVER				
Revenue	36,835	6,224	6,578	49,637
RESULT				
Segment result	9,338	2,589	192	12,119
Other revenues				2,897
Unallocated corporate expenses				(5,391)
Profit from operations				9,625
Finance costs				(302)
Profit before taxation				9,323
Taxation				(408)
Profit after taxation				8,915
ASSETS				
Segment assets	43,369	4,432	2,705	50,506
Unallocated corporate assets				613
Consolidated total assets				51,119
LIABILITIES				
Segment liabilities	15,693	603	2,615	18,911
Unallocated corporate liabilities				2,388
Consolidated total liabilities				21,299
OTHER INFORMATION				
Capital expenditure	639	368	62	1,069
Depreciation and amortisation	714	407	203	1,324
Provision for bad and doubtful debts	934	–	–	934

5. SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2002

	Group			
	Radio trunking systems integration	Provision of telemedia-related and other value-added telecommunication-related technical services	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
Revenue	23,439	6,230	–	29,669
RESULT				
Segment result	998	2,632	–	3,630
Other revenues				1,428
Unallocated corporate expenses				(7,632)
Loss from operations				(2,574)
Finance costs				(132)
Loss before taxation				(2,706)
Taxation				–
Loss after taxation				(2,706)
ASSETS				
Segment assets	29,885	5,539	–	35,424
Unallocated corporate assets				680
Consolidated total assets				36,104
LIABILITIES				
Segment liabilities	12,446	184	–	12,630
Unallocated corporate liabilities				4,068
Consolidated total liabilities				16,698
OTHER INFORMATION				
Capital expenditure	269	659	12	940
Depreciation and amortisation	814	339	287	1,440
Provision for bad and doubtful debts	2,117	–	–	2,117

6. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is stated after crediting and charging the following:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Crediting		
Gain on disposal of fixed assets	**133**	260
Charging		
Auditors' remuneration	**380**	400
Cost of goods sold	**19,939**	10,025
Depreciation of fixed assets	**1,324**	1,440
Operating lease rental in respect of:		
– land and buildings	**1,577**	1,642
– motor vehicles	**–**	632
Net exchange loss	**12**	4
Provision for bad and doubtful debts	**934**	2,117
Provision for slow-moving inventories, included in cost of goods sold above	**–**	762
Research and development costs	**3,276**	2,132
Staff costs, including directors' emoluments	**10,716**	9,965

7. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans		
– wholly repayble within five years	**212**	132
Interest on amount due to a related company	**90**	–
	302	132

8. TAXATION

The amount of taxation in the income statement represents:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Hong Kong profits tax *(Note (a))*	**–**	–
Overseas taxation		
– current year *(Note (b))*	**408**	–
	408	–

Note:

(a) No provision for Hong Kong profits tax is required since the Group has no assessable profit for the year. In 2003, the Hong Kong government enacted a change in the profits tax rate from 16% to 17.5% for the year of assessment 2003/04.

(b) Overseas taxation represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.

(c) The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax taxation rate as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**9,323**	(2,706)
Tax at the domestic income tax rate of 17.5% (2002: 16%)	**1,632**	(473)
Tax effect of expenses that are not deductible in determining taxable profit	**511**	427
Tax effect of utilisation of tax losses not previously recognised	**(70)**	–
Tax loss not recognised	**1,850**	1,625
Income of subsidiaries under tax exemption and reduction	**(4,176)**	(1,606)
Overprovision of taxation	**168**	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	**476**	–
Temporary difference not recognised	**17**	27
	408	–

9. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders includes a loss of approximately HK$3,561,000 (2002: HK$44,788,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2002: Nil).

11. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on:

Profit/(loss)	**2003**	2002
	HK$'000	*HK$'000*
Group's profit/(loss) attributable to shareholders used in the calculation of earnings/(loss) per share	**8,869**	(2,527)

Number of shares	**2003**	2002
Weighted average number of ordinary shares in issue during the year used in earnings/(loss) per share calculation	**564,000,000**	565,378,630

There is no dilution arising from the share options granted by the Company as all the share options were cancelled during the year. Accordingly no diluted earnings per share for the year is presented. There were no potential dilutive shares during the year ended 31 December 2003.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amount of emoluments paid and payable to the directors of the Company during the year are as follows:

	2003	2002
	HK$'000	*HK$'000*
Fees	**120**	190
Other emoluments		
– Basic salaries and allowances	**845**	720
– Retirement scheme contributions	**24**	24
	869	744
	989	934

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

One non-executive director received no emoluments for the years ended 31 December 2002 and 2003.

Two independent non-executive directors received directors' fee of HK$60,000 (2002: HK$120,000) and HK$60,000 (2002: HK$70,000) respectively during the year.

The number of directors whose remuneration fell within the following band is as follows:

	2003	2002
Nil to HK$1,000,000	**4**	4

During the year ended 31 December 2002, two executive directors received individual emoluments of approximately HK$432,000 and HK$312,000 respectively, and the remaining two executive directors received no emoluments.

Two executive directors received individual emoluments of approximately HK$467,000 and HK$402,000 respectively and two executive directors received no emoluments for the year ended 31 December 2003.

During the years ended 31 December 2002 and 2003, no emoluments have been paid by the Group to the directors as an inducement to join the Group or as compensation for loss of office.

In addition to the directors' emoluments disclosed above, 10,000,000 options were granted to an executive director in 2001 under the share option scheme as stated in note 23 to the financial statements and all these options were cancelled during the year.

A director waived HK$60,000 of his emoluments for the year ended 31 December 2002. No director waived or agreed to waive any of their emoluments for the year ended 31 December 2003.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2002: two) directors whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining three (2002: three) individuals during the year are as follows:

	2003 ***HK$'000***	2002 *HK$'000*
Basic salaries, allowances and other benefits in kind	**1,094**	850
Retirement scheme contributions	**17**	13
	1,111	863

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals *(continued)*

The number of highest paid individuals whose remuneration fell within the following band is as follows:

	2003	2002
Nil to HK$1,000,000	**3**	3

During the years ended 31 December 2002 and 2003, no emoluments have been paid by the Group to the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

13. FIXED ASSETS

(a) Group

	Land and buildings under long leases outside Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
At 1 January 2003	1,330	1,096	971	4,075	2,177	526	10,175
Additions	–	–	186	268	522	93	1,069
Revaluation	1,323	–	–	–	–	–	1,323
Transfers	–	–	(43)	43	–	–	–
Disposals	(130)	–	(66)	–	–	(79)	(275)
At 31 December 2003	**2,523**	**1,096**	**1,048**	**4,386**	**2,699**	**540**	**12,292**
Accumulated depreciation							
At 1 January 2003	89	889	896	2,082	1,776	435	6,167
Charge for the year	91	95	13	685	367	73	1,324
Revaluation	(166)	–	–	–	–	–	(166)
Transfers	–	–	(43)	43	–	–	–
Disposals	(14)	–	(66)	–	–	(57)	(137)
At 31 December 2003	**–**	**984**	**800**	**2,810**	**2,143**	**451**	**7,188**
Net book value							
At 31 December 2003	**2,523**	**112**	**248**	**1,576**	**556**	**89**	**5,104**
At 31 December 2002	1,241	207	75	1,993	401	91	4,008

13. FIXED ASSETS *(continued)*

(a) Group *(continued)*

The analysis of the cost or valuation of the above assets at 31 December 2003 is as follows:

	Land and buildings under long leases outside Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	1,096	1,048	4,386	2,699	540	9,769
At valuation	2,523	–	–	–	–	–	2,523
	2,523	1,096	1,048	4,386	2,699	540	12,292

(b) Company

	Leasehold improvements	Furniture, fixtures and equipment	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 January 2003	179	178	290	647
Additions	–	3	10	13
At 31 December 2003	179	181	300	660
Accumulated depreciation				
At 1 January 2003	179	77	202	458
Charge for the year	–	36	81	117
At 31 December 2003	179	113	283	575
Net book value				
At 31 December 2003	–	68	17	85
At 31 December 2002	–	101	88	189

13. FIXED ASSETS *(continued)*

(c) The Group's land and buildings under long leases outside Hong Kong were revalued at 31 December 2003 on the basis of open market value in existing use by Sallmanns (Far East) Limited, an independent firm of professional valuers. The surplus arising on revaluation has been credited to the revaluation reserve account.

(d) The carrying amount of the Group's land and buildings under long leases outside Hong Kong would have been approximately HK$883,000 (2002: HK$1,020,000) had it been stated at cost less accumulated depreciation.

(e) At 31 December, 2003, the net book value of the Group's land and building under long leases outside Hong Kong pledged as security for banking facilities amounted to approximately HK$1,419,000 (2002: HK$622,000) (note 22).

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**48,600**	48,600
Impairment losses	**(25,000)**	(25,000)
Amounts due from subsidiaries *(Note (b))*	**3,666**	5,299
Amounts due to subsidiaries *(Note (b))*	**(5,463)**	(1,929)
	21,803	26,970

Note:

(a) Details of the subsidiaries at 31 December 2003 are as follows:

Company	Place of incorporation and principal place of operation	Issued and fully paid up capital	Percentage of interest in ownership/ voting power	Principal activities
Shares held directly:				
Neolink Communications Technology (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
China Gocom Information (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
China Gocom Internet (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
Neolink Wireless Technology Limited	Hong Kong	Ordinary HK$1,000,000	100%	Inactive
China Gocom (Holdings) Limited	Hong Kong	Ordinary HK$1,000,000	100%	Inactive

14. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation and principal place of operation	Issued and fully paid up capital	Percentage of interest in ownership/ voting power	Principal activities
Shares held indirectly:				
Neolink Communications Technology Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding and marketing of radio trunking systems
China Gocom Information Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
China Gocom Internet Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Beijing Neolink Information Technology Company Limited	The PRC	Registered US$300,000	100%	Trading of products relating to telemedia system and provision of relevant and related technical services
Beijing Neolink Sky Internet Technology Company Limited	The PRC	Registered US$300,000	100%	Inactive
Hangzhou Neolink Communication Equipment Company Limited	The PRC	Registered US$290,000	80%	Design, production and sale of radio trunking systems
Neolink Electronic Technology (Beijing) Company Limited	The PRC	Registered US$200,000	100%	Marketing of radio trunking systems
Neolink Huadian Electronic Technology (Shenzhen) Company Limited	The PRC	Registered US$500,000	100%	Sales of radio trunking systems, related hardware and software
Neolink Communications Technology (Hangzhou) Limited	The PRC	Registered HK$10,000,000	100%	Development of telecommication software and provision of related technical services

(b) Amounts due from/(to) subsidiaries are unsecured, interest-free and are not repayable within the next twelve months.

15. INVENTORIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	**2,368**	2,696
Work in progress	**887**	567
Finished goods	**3,851**	2,140
Less: Provision	**(837)**	(837)
	6,269	4,566

At 31 December 2002 and 2003 the inventories are stated at cost less provision for obsolescence.

16. TRADE RECEIVABLES

The Group has a policy of allowing its trade customers with credit period normally ranging from 45 days to 60 days or according to the terms of the sales contracts. The ageing analysis of trade receivables is as follows:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
0 to 30 days	**2,262**	1,882	**–**	–
31 to 60 days	**547**	1,312	**–**	–
61 to 90 days	**1,118**	–	**–**	–
91 to 120 days	**64**	–	**–**	–
Over 120 days	**3,840**	3,013	**–**	–
	7,831	6,207	**–**	–

17. AMOUNTS DUE FROM RELATED COMPANIES – GROUP

The amounts due from related companies represent trade receivables from Hainan Baotong Communication System Co., Ltd. ("Baotong") and Beijing Haoyuan Yingte Technology Development Co. Ltd. ("Haoyuan Yingte"). The amount due from Baotong is unsecured, interest-free and with no fixed terms of repayment. The amount due from Haoyuan Yingte is unsecured, interest-free and is subject to a credit period of 45 days after the end of each quarter. The ageing analysis of the amounts due from related companies is as follows:

	2003	2002
	HK$'000	*HK$'000*
0 to 30 days	**13,253**	7,123
31 to 60 days	**6,247**	1,203
61 to 90 days	**–**	4,230
91 to 120 days	**305**	–
	19,805	12,556

18. BANK AND CASH BALANCES – GROUP

Included in the bank and cash balances of the Group of approximately HK$2,904,000 (2002: HK$4,232,000) were denominated in Chinese Renminbi, a currency which is not freely convertible into other currencies.

19. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Group		**Company**	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
0 to 30 days	**2,678**	1,539	**–**	–
31 to 60 days	**76**	82	**–**	–
61 to 90 days	**69**	645	**–**	–
91 to 120 days	**34**	53	**–**	–
Over 120 days	**1,939**	2,450	**–**	–
	4,796	4,769	**–**	–

All the trade payables are expected to be settled within one year.

20. AMOUNT DUE TO ULTIMATE HOLDING COMPANY – GROUP AND COMPANY

The amount due to ultimate holding company is unsecured, interest-free and with no fixed terms of repayment.

21. AMOUNTS DUE TO RELATED COMPANIES – GROUP AND COMPANY

The amounts due to related companies represent temporary cash advances to the Group from Shenzhen Neolink Communication Technology Co., Ltd. ("Shenzhen Communication") and Haoyuan Yingte and consultancy fee payable to Qing Jiang (Hong Kong) Holdings Limited ("Qing Jiang HK"). The amounts are unsecured, interest-free and with no fixed terms of repayment except the amount due to Shenzhen Communication is interest-bearing at 5.31% per annum.

22. SECURED BANK LOANS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Wholly repayable within one year	**4,673**	2,804

The bank loans are interest-bearing at prevailing market rates and are secured by a legal charge on certain land and buildings under long leases outside Hong Kong of the Group with net book value of approximately HK$1,419,000 (2002: HK$622,000) and corporate guarantee provided by a subsidiary of the Company.

23. SHARE CAPITAL

	2003		2002	
	Number of shares	**Nominal value**	Number of shares	Nominal value
		HK$		*HK$*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000,000**	**100,000,000**	1,000,000,000	100,000,000
Issued and fully paid:				
At 1 January	**564,000,000**	**56,400,000**	578,800,000	57,880,000
Shares repurchased and cancelled	**–**	**–**	(14,800,000)	(1,480,000)
At 31 December	**564,000,000**	**56,400,000**	564,000,000	56,400,000

23. SHARE CAPITAL *(continued)*

Note:

(a) Pursuant to the share option scheme of the Company adopted on 13 July 2000 ("Old Scheme"), the executive directors may, at their discretion, grant options to the directors and the full-time employees of the Group entitling them to subscribe for shares of the Company at an exercise price of HK$0.72 each. A nominal consideration at HK$1 should be paid by the employees for each lot of share options granted.

On 5 January 2001 share options were granted to an executive director and certain employees of the Group. Details of the share options granted pursuant to the share option scheme are as follows:

Date of grant	Exercise price *HK$*	Exercisable period	Number of options
Executive director			
5 January 2001	0.72	5 January 2004 to 4 January 2008	10,000,000
Employees			
5 January 2001	0.72	5 January 2004 to 4 January 2008	20,000,000

By the resolutions passed on 17 April 2003, the Company cancelled all the share options granted to an executive director and certain employees of the Group, terminated the Old Scheme and adopted a new share option scheme ("New Scheme").

Pursuant to the New Scheme, the Board of directors may, at their discretion, grant options to the directors and any employee, any consultant or adviser of or to any company in the Group or any invested entity and any supplier of goods or services to any member of the Group or any invested entity, any person or entity that provides research, development or other technological support to the Group or any invested entity, and any company wholly-owned by one or more persons belonging to any of the above classes of the Group. A nominal consideration at HK$1 should be paid by the persons granted for each lot of share options granted.

During the year, no options were granted under the Old Scheme and New Scheme.

(b) Movements in the number of share options outstanding during the year are as follows:

	Number of options **2003**	2002
At 1 January	**30,000,000**	30,000,000
Granted	**–**	–
Exercised	**–**	–
Lapsed	**–**	–
Cancelled	**(30,000,000)**	–
At 31 December	**–**	30,000,000

24. BANKING FACILITIES

At 31 December 2003, the Group's banking facilities of approximately HK$4,673,000 (2002: HK$3,364,000) were secured by the following:

(a) legal charge on certain land and buildings under long leases outside Hong Kong of the Group; and

(b) corporate guarantee provided by a subsidiary of the Company.

25. DEFERRED TAXATION

Deferred tax assets are not recognised for tax losses carry forward due to uncertainty of realisation of the related tax benefit through the future taxable profits. The Group has unrecognised tax losses of HK$39,670,000 (2002: HK$30,412,000), of which HK$10,974,000 (2002: HK$5,496,000) would expire within the coming five years up to year 2008 (2002: year 2007). Other losses may be carried forward indefinitely.

26. LEASE COMMITMENTS

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases for the land and buildings are payable as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**544**	789
In the second to fifth years inclusive	**–**	120
	544	909

27. RETIREMENT BENEFIT COSTS

The Group has implemented a mandatory provident fund scheme for its staff in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance effective from 1 December 2000. The pension scheme contributions charged to income statement represent contributions payable (i.e. 5% of staff's relevant income with upper monthly limit of HK$1,000) by the Group to the specified retirement fund of the eligible individual employees. The Group's contribution to the scheme charged to income statement was approximately HK$47,000 (2002: HK$46,000) for the year.

The subsidiaries operating in the PRC are required to participate in defined contribution retirement schemes, organised by relevant local government authorities for the staff in the PRC. The subsidiaries are required to make contributions to the retirement schemes, at a rate of 20% to 23% of the basic salary of their employees in the PRC.

The Group's total contributions paid for the above schemes during the year are approximately HK$420,000 (2002: HK$384,000).

28. RELATED PARTY TRANSACTIONS

(a) In the normal course of business the Group entered into the following significant transactions with its related parties during the year:

	Group 2003 HK$'000	Group 2002 HK$'000
Sales of equipment, monitor systems and provision of technical services to		
– Baotong *(Note (i))*	**14,103**	10,534
– Haoyuan Yingte *(Note (i))*	**12,935**	6,220
Loan interest paid to Shenzhen Communication *(Note (ii))*	**90**	–
Consultancy fee paid to Qing Jiang HK *(Note (iii))*	**180**	180
Office administrative services income received from Qing Jiang HK *(Note (iii))*	**10**	5

(b) During the year the Group borrowed loan of approximately HK$3,673,000 (2002: Nil) from Shenzhen Communication. The loan is unsecured, interest-bearing at 5.31% per annum and with fixed term of repayment.

Note:

(i) Baotong and Haoyuan Yingte are indirectly owned by the relative of Mr. CAI Zuping, a director of the Company and Hubei Qing Jiang.

(ii) Shenzhen Communication is directly owned by the relative of Mr. CAI Zuping, a director of the Company and Shenzhen Jin Jiang Dao Property Development Company, a wholly-owned company of Hubei Qing Jiang.

(iii) Hubei Qing Jiang is a beneficiary shareholder of Qing Jiang HK.

29. POST BALANCE SHEET EVENTS

There were no significant matters which occurred since the balance sheet date to the date of these financial statements and which have had or may have a material effect on the financial position of the Group at 31 December 2003 or the Group's results for the year then ended.

30. ULTIMATE HOLDING COMPANY

The directors regard, Infonet Group Co., Ltd., a company incorporated in the British Virgin Islands, as being the ultimate holding company.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 22 to 53 were approved by the board of directors on 23 March 2004.

	For the year ended 31 December				
	2003	2002	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Turnover	**49,637**	29,669	31,893	19,988	22,787
Profit/(loss) from operations	**9,625**	(2,574)	(15,539)	(8,280)	5,390
Finance costs	**(302)**	(132)	(216)	(101)	(97)
Profit/(loss) before taxation	**9,323**	(2,706)	(15,755)	(8,381)	5,293
Taxation	**(408)**	–	(226)	(6)	(118)
Profit/(loss) from ordinary activity before minority interests	**8,915**	(2,706)	(15,981)	(8,387)	5,175
Minority interests	**(46)**	179	(137)	391	(15)
Profit/(loss) attributable to shareholders	**8,869**	(2,527)	(16,118)	(7,996)	5,160
Assets and liabilities					
Total assets	**51,119**	36,104	53,309	41,726	19,035
Total liabilities	**(21,299)**	(16,698)	(17,196)	(9,182)	(9,439)
Minority interests	**(4)**	42	(137)	–	391
Shareholders' funds	**29,816**	19,448	35,976	32,544	9,987