



Annual Report 年報  
2003/04

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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We are commit to provide innovative value-add business solution for emerging telecom carrier , provide one-step multi-services telecommunications business solutions for virtual telecom operator .

## Hongkong and Overseas Telecom Operators 香港及海外電信

|                          |                           |
|--------------------------|---------------------------|
| China Motion (H.K.)      | Telephonia (Singapore)    |
| Elitel (H.K.)            | Telcom United (Singapore) |
| Hicent Tech (H.K.)       | YTC Networks (Singapore)  |
| Newslink (H.K.)          | ETNS (Singapore)          |
| Mobitai (Taiwan)         | Dancom (Pakistan)         |
| Interconnect (Singapore) |                           |

## Internal Telecom Operators 國內電信

|                   |      |
|-------------------|------|
| Liaoning Railcom  | 遼寧鐵通 |
| Jiangsu Railcom   | 江蘇鐵通 |
| Hainan Railcom    | 海南鐵通 |
| Guangdong Railcom | 廣東鐵通 |
| Xizang Netcom     | 西藏網通 |
| Fujian Netcom     | 福建網通 |
| Shantou Netcom    | 汕頭網通 |
| Henan Mobile      | 河南移動 |
| Sichuan Mobile    | 四川移動 |
| China Unicom      | 中國聯通 |
| Beijing Telecom   | 北京電信 |
| Shendatel         | 深大電信 |

## Internal Sub-telecom Operators 國內二級電信

|                    |        |
|--------------------|--------|
| GATHINK            | 中信國安   |
| Guangdong Guoxun   | 廣東國訊   |
| Beijing Jinghengda | 北京京恒達  |
| Zhejiang Quantum   | 浙江光通   |
| Beijing SDGW       | 北京時代光網 |
| Hotline95          | 鴻聯九五   |
| Beijing NTT        | 北京NTT  |
| Cstel              | 中海電信   |
| Guangdian Group    | 廣電集團   |
| Beijing Boco Bell  | 億陽貝爾   |
| Beijing Liantuo    | 北京聯拓   |
| Netcom Westsource  | 西源數碼   |

我們致力於向新一代電信運營商提供創新電信業務及增值業務系統解決方案,向虛擬運營商提供一站式綜合電信解決方案及服務。

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Ma Yuanguang (*Chairman*)  
 Hu Zhi Jian  
 Li Guo Ping  
 Chau Siu Piu  
 Lin Jiang (*resigned on 31 May 2004*)

### NON-EXECUTIVE DIRECTOR

Wing Kee Eng, Lee

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Hu Tiejun  
 Lu Ting Jie

### AUTHORIZED REPRESENTATIVES

Chau Siu Piu  
 Lo Kam Hon, Gary ACCA, AHKSA

### COMPLIANCE OFFICER

Ma Yuanguang

### COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lo Kam Hon, Gary ACCA, AHKSA

### AUDIT COMMITTEE

Hu Tiejun  
 Lu Ting Jie

### REGISTERED OFFICE

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

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2102, Manley Commercial Building  
 367-375 Queen's Road Central, Hong Kong

### PRINCIPAL PLACE OF BUSINESS IN THE PRC

Unit on 6th Floor, Ke Xun Building  
 No. 60 Jian Zhong Road, Zhong Shan Da Dao  
 Guangzhou City, Guangdong Province, PRC

### PRINCIPAL BANKERS

China Construction Bank  
 Guangzhou Gong Ye Yuan Sub-branch  
 China Minsheng Banking Corp. Ltd.  
 Ti Yu Xi Sub-branch  
 Chiyu Banking Corporation Limited  
 Industrial and Commercial Bank of China (Asia) Limited

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Bank of Butterfield International (Cayman) Ltd.  
 Butterfield House  
 68 Fort Street, P.O. BOX 705  
 George Town  
 Grand Cayman  
 Cayman Islands  
 British West Indies

### BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor  
 Services Limited  
 Shops 1712-1716  
 17th Floor  
 Hopewell Centre  
 183 Queen's Road East  
 Hong Kong

### SPONSOR

Kingsway Capital Limited  
 5th Floor, Hutchison House  
 10 Harcourt Road, Central  
 Hong Kong

### AUDITORS

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

### STOCK CODE

8060

### CORPORATE WEBSITE

[www.glink.com.cn](http://www.glink.com.cn)

**Global Link Communications Holdings Limited (the "Company") and its subsidiaries ("Global Link" or the "Group") has enhanced its product competitive power and increased the number of its business partners through the Groups' strategy, "to increase customers' competitive advantage through creative products, to give impetus to customer's earning growth through unique characteristic solutions". This will further enhance the "Global Link" brand name in the telecommunications operation and value-added business in the People's Republic of China (the "PRC") and other parts of the Asia-Pacific region.**

During the year ended 31 March 2004, the Group's efforts, with the PRC as its core target market, and competitive power from creative and unique characteristic solutions, resulted in a steady growth. The Group's turnover for the year was approximately HK\$36,473,000 which has increased 10% from last year.

The Group's gross profit for the year was approximately HK\$3,832,000 with gross profit margin at around 11%. The gross profit margin has decreased by approximately 62% compared to last year. The decrease in gross profit margin is mainly resulted from the severe market competition and the adoption of a more flexible and competitive pricing strategy so as to maintain its competitive advantage. The Group believes that in the coming year the gross profit margin will increase following the launch of new products into the market.

Loss attributable to shareholders was approximately HK\$23,078,000. For long term development, the Group has invested more resources in human resources, research and development tools as well as establishment of a subsidiary. This together with increased provision for doubtful debt are the main cause for the Group's reported loss. First, the Group has further strengthened its credit control policy in this year to improve its financial status and customers quality which caused the increase in provision for doubtful debt. The Group believes the level of provision will be reduced significantly in the future as management has revised the internal control, enhanced the execution of sales contract and accounts receivable management. And secondly, focusing on the customers and market changes, the Group has increased the resources invested in research and development, and has launched new products in the second half year. The Group believes these new products will make a better return and lead the Group to develop continuously.

The board of directors (the "Board") of the Company do not recommend the payment of a final dividend as a loss per share was approximately HK cents 3.53 recorded.

During the year, the PRC still had high economic growth. Telecommunications industry still played a leading role in the economic development, the increase of which in consolidated index is higher than the other industries. Global Link believes that following the reform of telecommunications system and the open up of the market, the Group's creative operation model and unique characteristic services will be the key to get competitive advantage. With its extensive experience in serving the PRC and overseas customers successfully, Global Link focus on the research and development of creative products and unique characteristic solutions, which has led the Group to capture more market share in backbone operators and value-added services providers continuously.

## CHAIRMAN'S STATEMENT

To cope with the changes and competition in telecommunications market, Global Link launched new series of operation model and products to satisfy telecommunications operators and value-added services providers' demand in respect of flexibility to deal with market competition and also to fit customers' requests of changing and unique services continuously. Following the MAGPlus Multi-services Platform, Global Link developed Telecom Hotel – a new telecommunications operating model, which created a business value chain led by operators with flexible construction, detailed and unique characteristics, joint agents from all level to achieve a low cost and high efficiency market expansion, and become a key market strategy for operators to win in new competition environment. During the year, Telecom Hotel was adopted by operators including China Telecom, China Netcom and China Railcom and has created an all parties winning new market status. Global Link also developed creative products for telecommunications value-added services, including One Number, Conference Call, Multi-parties Communication, Color Music Background Call and Voice Portal. Global Link's creative and unique characteristic products have earned customers' recognition in the PRC and Asia-Pacific region. The Group will hold and expand its creative advantage in the industries, which will then capture more market share and create value for shareholders.

During the year, the Group has established a subsidiary in Beijing to enhance the development of market selling system, aiming to allow the Group's products a broader geographic coverage and good customer services. Guangzhou Global Link Communications Inc., the Group's base for research and development and market development, has got the GB/T19001-2000-ISO9001:2000 quality management system certification. This certification recognises the quality of Global Link's telecommunications software development, integrated system and related services, which increased customers' confidence and make the "Global Link" brand name and products more competitive.

"Wide-ranging alliance and mutual development" is a lasting objective of Global Link. During the year, the Group has allied with INTEL and North America high-tech companies such as Excel and NMS for new business as well as future market development. The Group's Telecom Hotel model has started cooperative operation with China Netcom, China Railcom and value-added services providers in some core cities in the PRC. Looking into future, the Group believes its provision of creative products to enhance customers' competitive advantage corporate strategy, will increase Global Link's core competitive power in the industries, and will bring a better return to the shareholders.

I would like to express my sincere gratitude to the Directors, senior management and employees for their contribution and to our shareholders, customers and allied parties for their full support.

**Ma Yuanguang**

*Chairman*

Hong Kong, 18 June 2004



Global Link is principally engaged in the research and development and provision of telecommunications software solutions for new telecommunications services, value-added telecommunications services as well as provision of other communication network solutions in the PRC and in other parts of the Asia-Pacific region.

## MARKET OVERVIEW

During the year, telecommunications industry in the PRC developed in a forceful way. The six backbone operators have expanded their operations, which led to severe competition and arose of business opportunity. Telecommunications operators now focus on both growth in subscribers and earnings, using creative operation model and business content and unique characteristic with quality service to capture market share. In this year, the Ministry of Information Industry of the PRC granted value-added telecommunications operation licenses to 10 enterprises allowing them to operate in three business categories, including multi-parties communication business in the PRC, with the aim to promote the open up of the market and to satisfy customers' demand in unique characteristic services.

## BUSINESS REVIEW

During the year, backbone telecommunications operators and value-added services providers kept expanding their creative business model and launching more value-added services in the provision of various contents. They also started more open and deeper cooperative operation with solutions providers. Global Link, through its creative products and unique characteristic solutions captured the new business opportunity in the development of telecommunications industry.

The Group's turnover for the year was approximately HK\$36,473,000, increased approximately 10% from last year. The Group's gross profit was approximately HK\$3,832,000 with gross profit margin at around 11%. The gross profit margin has decreased by approximately 62% compared to last year. Loss attributable to shareholders was approximately HK\$23,078,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

### TURNOVER BY REGION

With GZGL as the base, the Group has established a subsidiary in Beijing to develop sales network. The Group's new target market is in the PRC and target customers are backbone telecommunications operators and value-added services providers. During the year, the turnover in the PRC was approximately HK\$ 19,393,000, represent 53% of the Group's turnover.

Telecommunications operators in the Asia-Pacific region is at a price cut competition environment, the Group captured new customers through its creative business content, flexible and fast responding unique characteristic solutions. During the year, the turnover in Hong Kong and overseas market was approximately HK\$ 17,080,000, represented approximately 47% of the Group's turnover.

## CUSTOMER ANALYSIS

The Group's major customers are small to medium virtual telecommunications operators and value-added telecommunications services providers. The Group has started to cooperate with some backbone operators, including China Telecom, China Netcom and China Railcom. **The Group believes that following the mass entrance of "Global Link" products into backbone operators' market, a deeper and wider cooperation with backbone operators will be the Group's expanding trend and growth opportunity.**

## PRODUCT DEVELOPMENT AND CREATIVE TECHNOLOGY

The Group's development strategy is to enhance customers' competitive advantage through creative products, to increase customers' earnings growth through unique characteristic solutions. Competition in telecommunications market in the PRC has shifted quickly from network resources to the provision of content and services. Global Link has quickly responded to market changes and has started the research and development in product model and advanced technology.

- (1) Through an in-depth research, the Group has launched Telecom Hotel telecommunications operation model, which is created from a new concept in providing a business value chain at low cost with high efficiency led by operators with flexibility in construction, detail orientated and unique characteristics. The Telecom Hotel has been adopted by some backbone operators as model to fastly expanding business in locations.
- (2) In August 2003, in the "Virtual Operations and Value-added Telecommunications Services Conference", Global Link has published "New Generation for One Stop Telecommunications Business Solutions". This solution focused on backbone operators and value-added services providers and captured certain percentage of customers who have got the multi-parties communication licenses.
- (3) To satisfy operators and services providers' demand in facing competition through unique characteristic value-added telecommunications content, the Group has developed value-added telecommunications content products, including One Number, Conference Call, Multi-parties Communication, Color Music Background Call and Voice Portal. These flexible and focusing products made the "Global Link" brand name broadly recognised in the industry.

## MANAGEMENT DISCUSSION AND ANALYSIS

### WIDE-RANGING ALLIANCE

“Wide-ranging alliance, mutual development” is Global Link’s lasting enterprise objective. The Group has allied with INTEL and North America high-tech companies for new business as well as future market development. The Group’s Telecom Hotel model has started cooperative operation with China Netcom, China Railcom and value-added services providers in some core cities in the PRC.

### CAPITAL STRUCTURE

The Group has capitalised HK\$21 million through listing on the GEM Board on 13 November 2002. There has been no change in the capital structure of the Company since that date.

The Group carried out prudent financial policy; surplus cash is deposited in bank to finance operation and investments. Management will review the financial forecast on a regular basis to ensure the use of proceeds strictly follows those stated in the prospectus of the Company dated 31 October 2002 (the “Prospectus”) or identified by the Directors during the normal course of business. As at 31 March 2004, the Group has a total cash and bank balance amounted to approximately HK\$8,423,000, which mainly generated from initial market capitalisation and daily operation.

### BUSINESS OUTLOOK

Looking forward, the PRC telecommunications market can maintain a high growth rate is predictable. Global Link believes that its latest developed solutions have high market potential in the near future. Global Link will utilise its advantages in practical experiences in the industry, product design and designated market share, to pursue the “to increase customers’ competitive advantage through creative products, to increase customers’ earnings through unique characteristic solutions” strategy, as well as to increase market and product creativity to make Global Link’s product solutions have higher core competitiveness. Under wide-ranging alliance, Global Link will share advantaged resources with operators and customers and capture long term development opportunities.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated cashflows and the balance of the net proceeds from the listing of the Company’s shares on the GEM Board on 13 November 2002.

As at 31 March 2004, the Group had net current assets of approximately HK\$10,194,000 (2003: approximately HK\$33,564,000), of which approximately HK\$8,423,000 (2003: approximately HK\$17,726,000) were bank and cash balances. The Directors are confident that the Group’s existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

## CHARGES ON THE GROUP'S ASSETS

The Group had no charges on its assets for the year under review.

## MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

The Group did not have any material acquisitions, disposals and significant investments during the year under review.

## GEARING RATIO

The Group did not have any interest bearing bank loan and other borrowings for the year under review.

## FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions and assets of the Group were denominated in Renminbi. Based on the past records, the exchange rate of Renminbi and Hong Kong Dollar will remain relatively stable in the foreseeable future. Accordingly, the Directors do not consider that the Group was significantly exposed to foreign exchange risk and therefore it is not necessary to implement any hedging policy for the Group.

## SEGMENT REVENUE

The Group's segment revenue is primary based on the geographical locations of customers. However, for those customers who are located in areas where the Group do not have assets or liabilities were treated as revenue arising in Hong Kong for presentation purpose.

## CONTINGENT LIABILITIES

At 31 March 2004, banking facilities amounting to HK\$2,500,000 (2003: HK\$2,500,000) granted by a bank to a wholly owned subsidiary were guaranteed by the Company.

## EMPLOYEE AND SALARIES POLICY

As at 31 March 2004, the Group has 78 staff (2003: 60 staff), with 66 and 12 staff are employed in the PRC and Hong Kong respectively.

|  | <b>At 31 March<br/>2004</b> | At 31 March<br>2003 |
|--|-----------------------------|---------------------|
|  | <b>Number of staff</b>      | Number of staff     |
| Management, finance and administration | <b>21</b>                   | 14                  |
| Research and development               | <b>37</b>                   | 30                  |
| Marketing and sales                    | <b>20</b>                   | 16                  |
| <hr/>                                  |                             |                     |
| Total                                  | <b>78</b>                   | 60                  |

The total staff costs, including Directors' emoluments, amounted to approximately HK\$4,703,000 (2003: approximately HK\$3,683,000) for the year under review. Staff remuneration is reviewed by the Group from time to time depending on length of service and performance of the staff.

The Group provides various employee benefits, including share option scheme, Mandatory Provident Fund Scheme, social insurance and accident insurance for frequent travel staff.

# MANAGEMENT DISCUSSION AND ANALYSIS

## USE OF PROCEEDS

|  | <b>Amount to be used<br/>for the year ended<br/>31 March 2004<br/>as stated in<br/>the Prospectus<br/>(HK\$ million)</b> | <b>Actual amount<br/>used up to 31<br/>March 2004<br/>(HK\$ million)</b> |
|--|--|--|
| Enhancement of existing solutions and services   | 1.6  | 1.6  |
| Enhancement of research and development capabilities<br>on new solutions and services                | 1.8  | 1.8  |
| Establishment of business partnerships and co-operation<br>with universities and research institutes | 0.6  | 0.6  |
| Market expansion and business development  | 2.0  | 2.0  |
| Acquisitions of hi-tech projects, strategic investments and as<br>general working capital            | 3.0  | 3.0  |
| <b>Total</b>   | <b>9.0</b>   | <b>9.0</b>   |

The unused proceeds are deposited in bank as short term deposits. The Directors believed that the net proceeds capitalised are sufficient to serve the future business plans stated in the Prospectus.

**Comparison between actual business progress and business objectives stated in the Prospectus (From 1 April 2003 to 31 March 2004):**

| <b>Business objectives as stated in the Prospectus</b>   | <b>Actual business progress/change in business objectives (if any)</b>                                  |
|--|---|
| <i>Business Development</i>  |   |
| <ul style="list-style-type: none"> <li>▪ Form a research center with a renowned university or a telecommunications research institute in the PRC to proceed with the research and development of telecommunications operating solution plans.</li> </ul> | Signed a cooperative agreement with a university and started research and development work.             |
| <ul style="list-style-type: none"> <li>▪ Establish business presences along the south-eastern part of the PRC, including Shanghai and Fujian, to promote and market the Group's solutions.</li> </ul>  | Established business presence in south-eastern part of the PRC, including Shanghai, Jiangsu and Fujian. |
| <ul style="list-style-type: none"> <li>▪ Enter into two sales agency agreements with agents in Wuhan and Haikou (海口), the PRC to expand the distribution networks for the Group's solutions.</li> </ul>  | Signed two sales agency agreements in Wuhan and Haikou.   |

| Business objectives as stated in the Prospectus   | Actual business progress/change in business objectives (if any)  |
|---|--|
| <ul style="list-style-type: none"> <li>Cooperate with North American telecommunications companies which possess advanced technologies and to introduce those advanced technologies and solutions into the PRC.</li> </ul> | <p>Introduced advanced platform technologic solutions while solutions for new business are under development.</p>                |
| <ul style="list-style-type: none"> <li>Establish one subsidiary in the PRC for the development of new business.</li> </ul>  | <p>Established Beijing Global Link Weiye Communications Technology Inc. to develop business in the Northern PRC.</p>             |
| <ul style="list-style-type: none"> <li>Expand the Group's sales network by entering more sales agency agreements in the PRC.</li> </ul>   | <p>Entered into sales agency agreements with 3 PRC companies and still expanding sales network during the year under review.</p> |

### *Research and Development*

|   |   |
|---|---|
| <ul style="list-style-type: none"> <li>Continue the research and development of VoIP Solutions.</li> </ul>                                | <p>Development completed, launched into the market for sales.</p> |
| <ul style="list-style-type: none"> <li>Research and develop Large Volume Communication System software (大容量話務系統功能軟件).</li> </ul>          | <p>Development completed, launched into the market for sales.</p> |
| <ul style="list-style-type: none"> <li>Research and develop next generation switching and network application system software.</li> </ul> | <p>In progress and software development partly completed.</p>     |
| <ul style="list-style-type: none"> <li>Continue to research and develop value-added telecommunications services solutions.</li> </ul>     | <p>Development completed, launched into the market for sales.</p> |
| <ul style="list-style-type: none"> <li>Continue to research and develop VoIP switching system software.</li> </ul>                        | <p>Development completed, launched into the market for sales.</p> |

### *Solutions and Services*

|  |  |
|--|--|
| <ul style="list-style-type: none"> <li>Launch web-based Operating Support System (OSS).</li> </ul>   | <p>In view of market demand, completed the development of Telecom Hotel, an operation system for voice telecommunication platform (this platform included an Operations Support System (OSS)), and launched into the market for sales.</p> |
| <ul style="list-style-type: none"> <li>Launch Conferencing Business System based on version 4.0 of the MAGPlus Multi-Services Platform.</li> </ul> | <p>Development completed, launched into the market for sales.</p>  |
| <ul style="list-style-type: none"> <li>Launch second generation MAGPlus Intelligent Public Phone Management System.</li> </ul>                     | <p>Development completed, launched into the market for sales.</p>  |

## MANAGEMENT DISCUSSION AND ANALYSIS

| Business objectives as stated in the Prospectus   | Actual business progress/change in business objectives (if any)  |
|---|--|
| <ul style="list-style-type: none"> <li>▪ Launch VoIP Remote Access System (IP電話專線接入系統).</li> </ul>  | Development completed, launched into the market for sales.   |
| <ul style="list-style-type: none"> <li>▪ Launch system solution plan on IP telephony.</li> </ul>  | Development completed, launched into the market for sales.   |
| <ul style="list-style-type: none"> <li>▪ Launch Large Volume Communications System software (大容量話務系統功能軟件).</li> </ul>   | Development completed, launched into the market for sales.   |
| <i>Sales and Marketing</i>  |  |
| <ul style="list-style-type: none"> <li>▪ Strengthen the marketing efforts in promoting the Group's low-cost and highly efficient solution plan to virtual backbone telecommunications operators, value-added telecommunications services providers and distributors.</li> </ul> | Apart from daily marketing activities, also participated in "Virtual Operation and Value-added Telecommunications Services Conference" and product promotion conference, as well as to promote Global Link's product and solutions through professional media. |
| <ul style="list-style-type: none"> <li>▪ Increase the efforts in marketing the Group's solutions in the Southeast Asian countries (such as Malaysia) that are gradually opening their telecommunications industries.</li> </ul>   | Promote the Group's software solutions through various channels in the Southeast Asian countries (Malaysia, Pakistan, etc.).   |
| <ul style="list-style-type: none"> <li>▪ Promote version 4.0 of the MAGPlus Multi-Services Platform, the MAGPlus – G series and the MAGPlus – T series in the PRC.</li> </ul>   | Marketing campaign launched with good result and customers found the new version reliable.   |
| <ul style="list-style-type: none"> <li>▪ Promote VoIP Remote Access System (IP專線接入系統) to the main operators of the PRC.</li> </ul>  | Marketing campaign started.  |
| <ul style="list-style-type: none"> <li>▪ Continue to promote VoIP Remote Access System (IP電話專線接入系統).</li> </ul>   | Marketing campaign started.  |
| <ul style="list-style-type: none"> <li>▪ Increase the efforts in promoting the concept of comprehensive operation solution plan in Southeast Asia and the PRC.</li> </ul>   | Achieved good result in marketing Telecom Hotel in the PRC and Southeast Asia.   |
| <ul style="list-style-type: none"> <li>▪ Promote second generation Intelligent Public Management Phone System to the PRC operators, targeting at those who possess the privileges to conduct telecommunications operations in the PRC.</li> </ul>                               | Marketing campaign started.  |



**Business objectives as stated in the Prospectus**

- Promote medium- and small-scale value-added solution (中小規模的增值解決方案), VoIP terminal-products and value-added business application solution plan (增值業務應用解決方案) to the PRC value-added telecommunications operators and telecommunications services distributors.

**Actual business progress/change in business objectives (if any)**

Grasped opportunities in the open up of the telecommunications operations market and the issue of multi-communications licenses as well as to actively market the Group's solutions in business development.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Ma Yuanguang** (馬遠光), aged 50, is the co-founder and president of the Group and is also the chairman of the board of Directors. Mr. Ma is responsible for the overall strategic planning and management of the Group. Mr. Ma has over twenty-eight years' experience in the telecommunications industry. Prior to joining the Group, Mr. Ma had the experience of managing a state-owned telecommunications system production enterprise for eight years. Mr. Ma has cooperated with several multinational hi-tech firms in North America, Canada and Australia, etc. for the introduction of various new products and new technologies to the PRC.

**Mr. Hu Zhi Jian** (胡志堅) aged 40, is the vice president of the Group and a founding staff of the Group. Mr. Hu is responsible for overseeing the research and development and production of the Group. Mr. Hu has engaged in the research and development of communication technologies for more than ten years. Prior to joining the Group, he was the manager of research and development department of various companies and the introduction of technologies. Mr. Hu received a degree from the Automation Department (自動控制系) of the Huazhong University of Science and Technology (華中工學院).

**Mr. Li Guo Ping** (李國平), aged 41, is responsible for the marketing planning, sales management and the distribution of the Group's solutions. Mr. Li joined the Group in March 2000. Mr. Li has over ten years working experience in marketing and has established extensive network in the PRC. Mr. Li received his degree from the Physics Department of the Chengdu University of Electronic Science and technology of China (成都電子科技大學).

**Mr. Chau Siu Piu** (巢笑飆), aged 36, is the co-founder of the Group. Mr. Chau is responsible for the general administration and business development of the Group and participated in the management and daily operation of the Group. Mr. Chau received his degree from the Economics Department of Zhongshan (Sun Yat-sen) University (中山大學).

**Dr. Lin Jiang** (林江), aged 40, is responsible for the Group's corporate finance activity and business development strategy. Dr. Lin joined the Group in April 2002. He obtained his doctorate degree in economics at the Department of Business Administration of Jinan University (暨南大學). He has been appointed as a deputy general manager of Finance Center in China Merchants Holdings Co., Ltd., an executive director of China Merchants Hai Hong Holdings Limited and Union Bank of Hong Kong Limited. Dr. Lin has resigned from the post of executive Director on 31 May 2004.

### NON-EXECUTIVE DIRECTOR

**Mr. Wing Kee Eng, Lee**, aged 51. Mr. Lee joined the Group in May 2002. Mr. Lee has over 20 years of experience in the telecommunications industry. Mr. Lee pursued his career with Harris Corporation where he had been a visiting engineer, senior engineer and the head of sales of the Pan Asia Pacific region. Mr. Lee has also been the vice president of the marketing department of one telecom operator in the United States.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Hu Tiejun** (胡鉄君), aged 53. Mr. Hu has over twenty years' experience in telecommunications. Mr. Hu Tiejun is currently the chief scientist in China Motion Telecom International Limited, a listed company in Hong Kong and is responsible for technology research and development of the company since 1993.

**Professor Lu Ting Jie** (呂廷杰), aged 49. Professor Lu graduated from the Beijing University of Posts and Telecommunications (北京郵電學院) with a Master's degree, and obtained a Doctorate degree from Japan's Kyoto University (京都大學). Professor Lu is a tutor for doctorate students at the graduate school of Beijing University of Posts and Telecommunications. He had contributed a number of thesis and articles in the area of economics, communications and telecommunications.

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

**Mr. Lo Kam Hon, Gary** (勞錦漢), aged 40, is the Group's financial controller and company secretary. Mr. Lo is a qualified accountant, responsible for the Group's financial and cash flow management and budget control. Mr. Lo is an associate of the Association of Chartered Certified Accountants and Hong Kong Society of Accountants. Mr. Lo joined the Group in February 2003 and have more than fifteen years' experience in finance, accounting and treasury.

## SENIOR MANAGEMENT

**Mr. Li Guo Hui** (李國輝), aged 48, the assistant to general manager of Guangzhou Global Link Communications Inc. since April 1999, is accountable for the system manufacturing, project implementation, after-sales technical services and the quality control of the Group. Mr. Li Guo Hui has over twenty years' working experience in the telecommunications industry particularly in the quality control and manufacturing management process.

**Mr. Feng Yan Fa** (馮彥發), aged 37, the general manager of Research and Development Center of Guangzhou Global Link Communications Inc. since July 2000, is overseeing the overall research and development of the Group. Graduated from the Zhongshan (Sun Yat-sen) University (中山大學) with a Master's degree in Mathematics, Mr. Feng is currently pursuing a Doctoral degree in electronic Communications from South China University of Technology (華南理工大學).

**Mr. Zhang Li Ming** (張黎明), aged 30, joined Guangzhou Global Link Communications Inc. in June 2002 and is the deputy technical controller, responsible for software development, system analysis, project management and management of development. Mr. Zhang received his bachelor's degree from Xidian University (西安電子科技大學) and is currently pursuing a Master's degree in Software Project from the Zhongshan (Sun Yat-sen) University (中山大學).

**Mr. Zhang Wei Jing** (張維敬), aged 36, joined Guangzhou Global Link Communications Inc. in July 2000 and is the deputy marketing controller. Mr. Zhang Wei Jing has near ten years' working experience in the marketing and sales in the telecommunications industry.

## REPORT OF THE DIRECTORS

The Directors herein submit their report together with the audited financial statements of the Group for the year ended 31 March 2004.

### PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 26.

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2004.

### RESERVES

The movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 29 and note 25 to the financial statements respectively.

### FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 14 to the financial statements.

### SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 23 to the financial statements.

### DISTRIBUTABLE RESERVES

Pursuant to the Companies Law 2003 (Revised) of the Cayman Islands and the articles of association of the Company, the share premium of the Company is distributable to the shareholders, subject to a solvency test and the provisions of the Company's articles of association. As at 31 March 2004, the Company's reserves available for distribution to shareholders, comprising share premium account and retained earnings, amounted to approximately HK\$5,766,000 (2003: HK\$13,157,000).

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the relevant law of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out as follows:

### Financial Highlights

|                                     | <b>2004</b>     | 2003     | 2002     | 2001     |
|-------------------------------------|-----------------|----------|----------|----------|
|                                     | <b>HK\$'000</b> | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover                            | <b>36,473</b>   | 33,116   | 34,634   | 21,483   |
| Gross Profit                        | <b>3,832</b>    | 10,193   | 14,368   | 4,424    |
| Profit before Taxation              | <b>(23,096)</b> | 2,291    | 11,010   | 1,974    |
| Profit attributable to shareholders | <b>(23,078)</b> | 2,039    | 10,072   | 1,618    |
| Total Assets                        | <b>23,213</b>   | 45,363   | 21,704   | 11,596   |
| Total Liabilities                   | <b>10,783</b>   | (10,245) | (10,041) | (8,920)  |
| Minority Interests                  | <b>29</b>       | –        | –        | (1,085)  |
| Net Assets                          | <b>12,401</b>   | 35,118   | 11,663   | 1,591    |

Note: The Financial Summary of the Group for the years ended 31 March 2002 and 2001 have been extracted from the Company's Prospectus.

## MAJOR CUSTOMERS AND SUPPLIERS

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

|                                   |  |     |
|-----------------------------------|--|-----|
| Purchases                         |  |     |
| – the largest supplier            |  | 18% |
| – five largest suppliers combined |  | 50% |
| Sales                             |  |     |
| – the largest customer            |  | 27% |
| – five largest customers combined |  | 46% |

None of the Directors, any of their associates or any shareholder (which to the best knowledge of the Directors own more than 5% of the Company's issued share capital) had any beneficial interest in the major suppliers or customers noted above.

## REPORT OF THE DIRECTORS

### PURCHASE, SALE OR REDEMPTION OF SHARES

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

### DIRECTORS

The Directors during the year and up to the date of this report were:

#### Executive Directors

Mr. Ma Yuanguang

Mr. Hu Zhi Jian

Mr. Li Guo Ping

Mr. Chau Siu Piu

Dr. Lin Jiang (*resigned on 31 May 2004*)

#### Non-executive Director

Mr. Wing Kee Eng, Lee

#### Independent non-executive Directors

Mr. Hu Tiejun

Professor Lu Ting Jie

In accordance with Article 87 of the Company's articles of association, Mr. Chau Siu Piu and Mr. Wing Kee Eng, Lee will retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group and the employer's costs charged to the income statement for the year are set out in note 13 to the financial statements.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of two years commencing from 1 November 2002 and such service contract may be terminated by either party thereto giving to the other not less than three months' prior written notice.

Each of the non-executive Director and the independent non-executive Directors is appointed for an initial term of two years commencing from 1 November 2002 and is subject to retirement by rotation in accordance with the Company's articles of association.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation other than statutory obligations.

## DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the emoluments of the Directors and of the five highest paid employees of the Group are set out in note 12 to the financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company and its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on page 14 of this report.

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at 31 March 2004, the interests of the Directors and the chief executives of the Company in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which would have to be notified to the Company and the Stock Exchange pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which would have to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

| Name of Director | Company/name of associated corporation | Capacity         | Number and class of securities                        |
|------------------|--|------------------|---|
| Ma Yuanguang     | Company                                | Beneficial owner | 170,530,000 ordinary shares<br>Long position          |
|                  |  |                  | 10,556,000 ordinary shares<br>Long position<br>(Note) |
| Hu Zhi Jian      | Company                                | Beneficial owner | 84,660,000 ordinary shares<br>Long position           |
|                  |  |                  | 8,889,000 ordinary shares<br>Long position<br>(Note)  |
| Chau Siu Piu     | Company                                | Beneficial owner | 77,883,680 ordinary shares<br>Long position           |
|                  |  |                  | 7,778,000 ordinary shares<br>Long position<br>(Note)  |

| <b>Name of Director</b>                   | <b>Company/name of associated corporation</b> | <b>Capacity</b>  | <b>Number and class of securities</b>                |
|---|---|------------------|--|
| Li Guo Ping                               | Company                                       | Beneficial owner | 58,120,000 ordinary shares<br>Long position          |
|   |   |                  | 4,861,000 ordinary shares<br>Long position<br>(Note) |
| Lin Jiang<br>(resigned on<br>31 May 2004) | Company                                       | Beneficial owner | 1,111,000 ordinary shares<br>Long position           |
|   |   |                  | 1,111,000 ordinary shares<br>Long position<br>(Note) |
| Wing Kee Eng, Lee                         | Company                                       | Beneficial owner | 2,778,000 ordinary shares<br>Long position<br>(Note) |
| Hu Tiejun                                 | Company                                       | Beneficial owner | 833,000 ordinary shares<br>Long position<br>(Note)   |
| Lu Ting Jie                               | Company                                       | Beneficial owner | 416,500 ordinary shares<br>Long position             |
|   |   |                  | 416,500 ordinary shares<br>Long position<br>(Note)   |

*Note:*

Share options to subscribe for 10,556,000 shares, 8,889,000 shares, 7,778,000 shares, 4,861,000 shares, 2,222,000 shares, 2,778,000 shares, 833,000 shares and 833,000 shares of the Company were granted to Ma Yuanguang, Hu Zhi Jian, Chau Siu Piu, Li Guo Ping, Lin Jiang, Wing Kee Eng, Lee, Hu Tiejun and Lu Ting Jie respectively pursuant to the Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted and approved by the shareholders of the Company on 24 October 2002. On 13 November 2003, Lin Jiang and Lu Ting Jie have exercised 1,111,000 and 416,500 share options under the Pre-IPO Share Option Scheme respectively.

Save as disclosed above, as at 31 March 2004, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.



## SHARE OPTION SCHEMES

Pursuant to the Pre-IPO Share Option Scheme, Directors and certain participants have been granted options to subscribe for shares of the Company at a subscription price of HK\$0.036 per share, representing 10% of the placing price of the shares of the Company as at 13 November 2002, details of which are set out as follows:

| Name of grantee                            | Date of grant   | Number of share options granted | Outstanding as at 1 April 2003 | Number of share options under the Pre-IPO Share Option Scheme |  |                                 |
|--|-----------------|---------------------------------|--------------------------------|---|--|---------------------------------|
|  |                 |                                 |                                | Lapsed during the year under review                           | Exercised during the year under review | Outstanding as at 31 March 2004 |
| <i>Executive Directors</i>                 |                 |                                 |                                |   |  |                                 |
| Ma Yuanguang                               | 24 October 2002 | 10,556,000                      | 10,556,000                     | -   | -                                      | 10,556,000                      |
| Hu Zhi Jian                                | 24 October 2002 | 8,889,000                       | 8,889,000                      | -   | -                                      | 8,889,000                       |
| Chau Siu Piu                               | 24 October 2002 | 7,778,000                       | 7,778,000                      | -   | -                                      | 7,778,000                       |
| Li Guo Ping                                | 24 October 2002 | 4,861,000                       | 4,861,000                      | -   | -                                      | 4,861,000                       |
| Lin Jiang (resigned on 31 May 2004)        | 24 October 2002 | 2,222,000                       | 2,222,000                      | -   | 1,111,000                              | 1,111,000                       |
| <i>Non-executive Director</i>              |                 |                                 |                                |   |  |                                 |
| Wing Kee Eng, Lee                          | 24 October 2002 | 2,778,000                       | 2,778,000                      | -   | -                                      | 2,778,000                       |
| <i>Independent non-executive Directors</i> |                 |                                 |                                |   |  |                                 |
| Hu Tiejun                                  | 24 October 2002 | 833,000                         | 833,000                        | -   | -                                      | 833,000                         |
| Lu Ting Jie                                | 24 October 2002 | 833,000                         | 833,000                        | -   | 416,500                                | 416,500                         |
| <i>Senior Management</i>                   |                 |                                 |                                |   |  |                                 |
| Feng Yan Fa                                | 24 October 2002 | 778,000                         | 778,000                        | -   | 389,000                                | 389,000                         |
| Li Guo Hui                                 | 24 October 2002 | 611,000                         | 611,000                        | -   | 305,500                                | 305,500                         |
| Zhang Li Ming                              | 24 October 2002 | 611,000                         | 611,000                        | -   | 305,500                                | 305,500                         |
| Zhang Wei Jing                             | 24 October 2002 | 500,000                         | 500,000                        | -   | 250,000                                | 250,000                         |
| Advisers/consultants                       | 24 October 2002 | 9,054,000                       | 9,054,000                      | -   | 4,318,500                              | 4,735,500                       |
| Other employees of the Group               | 24 October 2002 | 7,467,000                       | 7,106,000                      | 665,500   | 2,928,500                              | 3,512,000                       |
|  | Total           | 57,771,000                      | 57,410,000                     | 665,500   | 10,024,500                             | 46,720,000                      |

## REPORT OF THE DIRECTORS

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain Directors, employees, consultants and advisers of the Group to the growth of the Group and/or the listing of shares of the Company on the GEM board. Each of the grantees to whom options have been conditionally granted under the Pre-IPO Share Option Scheme will be entitled to exercise (i) 50% of the shares so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 12 months from the Listing Date, and (ii) the remaining 50% of the options granted to him/her (rounded down to the nearest whole number) at any time after 24 months from the Listing Date, and in each case, not later than 10 years from the date of the grant of the options.

As at the date of this report, there are 46,650,500 outstanding share options granted under the Pre-IPO Share Option Scheme representing approximately 7.07% of the issued share capital of the Company if the said share options are exercised in full.

Under the terms of the share option scheme (the "Share Option Scheme") adopted by the Company on 24 October 2002, the Directors may at their discretion grant options to participants to subscribe for shares of the Company. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group. The total number of shares of the Company issued and which may fall to be issued upon exercise of the options under the Share Option Scheme and any other share option scheme of the Group to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period, subject to any performance target specified by the Directors, commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the board of Directors which shall not be more than 10 years from the date on which the option is deemed to be granted and accepted. A consideration of HK\$1 will be payable upon acceptance of the offer. The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. The subscription price should, subject to the adjustment as stated on the Share Option Scheme, be a price determined by the Directors and should be at least the highest of (i) the nominal value of a Share; (ii) the closing price per Share as stated on the daily quotation sheets revised by the Stock Exchange on the offer date, which should be a business day; or (iii) the average closing price of the shares as stated in the daily quotation sheets revised by the Stock Exchange for the five-business days immediately preceding the offer date.

Details of movements during the year in the Company's share options pursuant to the Share Option Scheme are as follows:

| Capacity  | Date of grant    | Number of share options granted | Number of share options under Share Option Scheme |                                     |  |                                 | Outstanding as at 31 March 2004 | Exercise price |
|-----------|------------------|---------------------------------|---|-------------------------------------|--|---------------------------------|---------------------------------|----------------|
|           |                  |                                 | Outstanding as at 1 April 2003                    | Lapsed during the year under review | Exercised during the year under review | Outstanding as at 31 March 2004 |                                 |                |
| Employees | 10 December 2003 | 6,510,000                       | -   | 280,000                             | -                                      | 6,230,000                       | HK\$0.132                       |                |

The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.120.

Each of the grantees to whom options have been conditionally granted under the Share Option Scheme will be entitled to exercise: (i) 50% of the options granted to each grantee (rounded down to the nearest whole number) after 9 December 2004; and (ii) the remaining 50% of the option granted to each grantee (rounded down to the nearest whole number) after 9 December 2005; and in each case, not later than 10 years from the date of grant of the options.

# REPORT OF THE DIRECTORS

The Directors consider that disclosure of value of options granted during the year is not appropriate because in the absence of a readily available market value of the options on the Company's shares, they are unable to arrive at an accurate assessment of the value of the options granted.

As at the date of this report, 5,730,000 shares of the Company are available for issue under the Share Option Scheme, representing 0.87% of the issued share capital of the Company if the said share options are exercised in full.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in the Prospectus and note 24 to the financial statements.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 March 2004, so far is known to the Directors, the following person (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group:

| <b>Name</b>   | <b>Capacity</b>  | <b>Class and number of securities</b>       | <b>Approximate percentage of shareholding</b> |
|---------------|------------------|---|---|
| Leung Kin Man | Beneficial owner | 50,000,000 ordinary shares<br>Long position | 7.58%   |

Save as disclosed above, as at 31 March 2004, so far is known to the Directors, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or any options in respect of such capital.

## COMPETING INTERESTS

Save as disclosed in the Prospectus the Directors are not aware of any business or interest of each Director, initial management shareholder or substantial shareholder of the Company or any of his/her respective associate that competes or may compete with the business of the Group and any other conflicts of interest which may such person has or may have with the Group as at 31 March 2004.

## REPORT OF THE DIRECTORS

### SPONSOR'S INTEREST

Pursuant to a sponsor agreement dated 31 October 2002 entered into between the Company and Kingsway Capital Limited (the "Sponsor"), the Sponsor has received and will receive fees for acting as the Company's retained sponsor for the period up to 31 March 2005.

As at 31 March 2004, neither the Sponsor nor its directors, employees or their respective associates (as referred to in the GEM Listing Rules) had any interest in the share capital of the Company or its subsidiaries, including options or rights to subscribe for such shares, pursuant to the GEM Listing Rules.

### MANAGEMENT CONTRACTS

Pursuant to a financial advice service agreement dated 5 November 2002 entered into between the Company and First Asia Finance Group Limited, the Company agreed to pay HK\$4,000,000 to First Asia Finance Group Limited for the financial advice services provided by First Asia Finance Group Limited to the Group for a period of twenty-eight months. This cost of services will be allocated to the profit and loss account in accordance with the duration of the agreement. As at 31 March 2004, HK\$1,300,000 was classified as prepayment stated in the financial statements.

### BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules.

### AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The Committee comprises two independent non-executive directors, Mr. Hu Tiejun and Professor Lu Ting Jie. Mr. Hu Tiejun is the chairman of the audit committee. Four meetings were held during the financial year under review, including review of the audited consolidated financial statements for the year ended 31 March 2004 of the Group.

### AUDITORS

The financial statements have been audited by RSM Nelson Wheeler who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Ma Yuanguang**

*Chairman*

Hong Kong, 18 June 2004

# RSM Nelson Wheeler

## 羅申美會計師行

### Certified Public Accountants

#### **TO THE SHAREHOLDERS OF GLOBAL LINK COMMUNICATIONS HOLDINGS LIMITED**

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

We have audited the financial statements on pages 26 to 52 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, 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 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 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 affairs of the Company and of the Group as at 31 March 2004 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### **RSM Nelson Wheeler**

*Certified Public Accountants*

Hong Kong

18 June 2004

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2004

|  | <i>Notes</i> | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Turnover                                   | 4 & 5        | <b>36,473</b>                  | 33,116                  |
| Cost of sales                              |              | <b>(32,641)</b>                | (22,923)                |
| Gross profit                               |              | <b>3,832</b>                   | 10,193                  |
| Other revenue                              | 4            | <b>2,384</b>                   | 2,028                   |
| Selling expenses                           |              | <b>(1,824)</b>                 | (1,819)                 |
| Administrative expenses                    |              | <b>(21,089)</b>                | (8,036)                 |
| Other expenses                             |              | <b>(6,294)</b>                 | –                       |
| (Loss)/profit from operations              | 6            | <b>(22,991)</b>                | 2,366                   |
| Finance costs                              | 8            | <b>(105)</b>                   | (75)                    |
| (Loss)/profit before taxation              |              | <b>(23,096)</b>                | 2,291                   |
| Taxation                                   | 9            | –                              | (252)                   |
|  |              | <b>(23,096)</b>                | 2,039                   |
| Minority interests                         |              | <b>18</b>                      | –                       |
| (Loss)/profit attributable to shareholders | 10           | <b>(23,078)</b>                | 2,039                   |
| (Loss)/earnings per share (in HK cents)    | 11           |                                |                         |
| – Basic                                    |              | <b>(3.53 cents)</b>            | 0.31 cents              |
| – Diluted                                  |              | <b>N/A</b>                     | 0.30 cents              |

The notes on pages 31 to 52 form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET

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ANNUAL REPORT 2003/04

AT 31 MARCH 2004

|  | Note | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------|------------------|------------------|
| <b>Non-current assets</b>                    |      |                  |                  |
| Fixed assets                                 | 14   | 2,236            | 1,807            |
| Negative goodwill                            | 15   | -                | (253)            |
|  |      | <b>2,236</b>     | 1,554            |
| <b>Current assets</b>                        |      |                  |                  |
| Inventories                                  | 18   | 55               | 1,569            |
| Trade and other receivables                  | 19   | 10,470           | 20,679           |
| Prepayments and deposits                     |      | 1,986            | 3,663            |
| Tax refundable                               |      | 43               | 172              |
| Bank and cash balances                       | 20   | 8,423            | 17,726           |
|  |      | <b>20,977</b>    | 43,809           |
| <b>Current liabilities</b>                   |      |                  |                  |
| Trade and other payables                     | 21   | 10,540           | 10,002           |
| Provision for taxation                       | 9    | 243              | 243              |
|  |      | <b>10,783</b>    | 10,245           |
| <b>Net current assets</b>                    |      | <b>10,194</b>    | 33,564           |
| <b>Total assets less current liabilities</b> |      | <b>12,430</b>    | 35,118           |
| Minority interests                           |      | 29               | -                |
| <b>Net assets</b>                            |      | <b>12,401</b>    | 35,118           |
| <b>Capital and reserves</b>                  |      |                  |                  |
| Share capital                                | 23   | 6,600            | 6,500            |
| Reserves                                     |      | 5,801            | 28,618           |
|  |      | <b>12,401</b>    | 35,118           |

Approved and authorised for issue by the Board of Directors on 18 June 2004.

**Ma Yuanguang**  
Director

**Chau Siu Piu**  
Director

The notes on pages 31 to 52 form an integral part of these financial statements.

**BALANCE SHEET**

AT 31 MARCH 2004

|                             | Note | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
|-----------------------------|------|--------------------------------|-------------------------|
| <b>Non-current assets</b>   |      |                                |                         |
| Investment in a subsidiary  | 16   | <b>21</b>                      | 21                      |
| <b>Current assets</b>       |      |                                |                         |
| Prepayments and deposits    |      | <b>1,608</b>                   | 3,028                   |
| Due from a subsidiary       | 17   | <b>16,549</b>                  | 21,188                  |
|                             |      | <b>18,157</b>                  | 24,216                  |
| <b>Current liabilities</b>  |      |                                |                         |
| Other payables              |      | <b>220</b>                     | 190                     |
| Due to a subsidiary         | 17   | <b>5,592</b>                   | 4,390                   |
|                             |      | <b>5,812</b>                   | 4,580                   |
| <b>Net current assets</b>   |      | <b>12,345</b>                  | 19,636                  |
| <b>Net assets</b>           |      | <b>12,366</b>                  | 19,657                  |
| <b>Capital and reserves</b> |      |                                |                         |
| Share capital               | 23   | <b>6,600</b>                   | 6,500                   |
| Reserves                    | 25   | <b>5,766</b>                   | 13,157                  |
|                             |      | <b>12,366</b>                  | 19,657                  |

Approved and authorised for issue by the Board of Directors on 18 June 2004.

**Ma Yuanguang**  
*Director*

**Chau Siu Piu**  
*Director*

The notes on pages 31 to 52 form an integral part of these financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2004

|   | Share<br>capital<br><i>HK\$'000</i> | Share<br>premium<br><i>HK\$'000</i> | Merger<br>reserve<br><i>HK\$'000</i><br><i>(note a)</i> | Foreign<br>exchange<br>translation<br>reserve<br><i>HK\$'000</i> | Retained<br>profits/<br>losses)<br><i>HK\$'000</i> | Statutory<br>reserve<br>fund<br><i>HK\$'000</i><br><i>(note b)</i> | Proposed<br>final<br>dividend<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|---|--|--|--|--|--------------------------|
| At 1 April 2002                                   | 21                                  | -                                   | 57  | 12   | 9,051  | 522  | 2,000  | 11,663                   |
| Effect of reorganisation                          | -                                   | -                                   | 2,078   | -  | -  | -  | -  | 2,078                    |
| New shares issued                                 | 780                                 | 27,300                              | -   | -  | -  | -  | -  | 28,080                   |
| Capitalisation issue of shares                    | 5,699                               | (5,699)                             | -   | -  | -  | -  | -  | -                        |
| Issue expenses in<br>connection with placing      | -                                   | (6,742)                             | -   | -  | -  | -  | -  | (6,742)                  |
| Profit for the year                               | -                                   | -                                   | -   | -  | 2,039  | -  | -  | 2,039                    |
| Transfer to statutory<br>reserve fund             | -                                   | -                                   | -   | -  | (298)  | 298  | -  | -                        |
| Dividend paid                                     | -                                   | -                                   | -   | -  | -  | -  | (2,000)  | (2,000)                  |
| At 31 March 2003                                  | 6,500                               | 14,859                              | 2,135   | 12   | 10,792   | 820  | -  | 35,118                   |
| Issue of shares upon exercise<br>of share options | 100                                 | 261                                 | -   | -  | -  | -  | -  | 361                      |
| Loss for the year                                 | -                                   | -                                   | -   | -  | (23,078)   | -  | -  | (23,078)                 |
| <b>At 31 March 2004</b>                           | <b>6,600</b>                        | <b>15,120</b>                       | <b>2,135</b>  | <b>12</b>  | <b>(12,286)</b>                                    | <b>820</b>   | <b>-</b>   | <b>12,401</b>            |

Note:

- (a) The merger reserve represents the difference between the nominal value of the share capital issued by the Company in exchange for the nominal value of the share capital and share premium of its subsidiary arising from group reorganisation in 2002.
- (b) Pursuant to the relevant accounting rules and regulations applicable to foreign investment enterprises established in the People's Republic of China (the "PRC"), the Group's PRC subsidiary is required to transfer not less than 10% of its profit after taxation to the statutory reserve fund until the balance of such fund has reached 50% of its registered capital. The balances of the statutory reserve fund cannot be reduced except where approval is obtained from the relevant PRC authority to utilise the balances to set off accumulated losses or increase the capital.

The notes on pages 31 to 52 form an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2004

|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------------------|------------------|
| <b>Operating activities</b>                                      |                  |                  |
| (Loss)/profit before taxation                                    | (23,096)         | 2,291            |
| Adjustments for:   |                  |                  |
| Depreciation   | 434              | 178              |
| Provision for bad and doubtful debts                             | 13,867           | 2,482            |
| Write off of inventories   | -                | 425              |
| Bad debts recovery   | (227)            | (1,133)          |
| Amortisation of negative goodwill                                | (253)            | (252)            |
| Bank interest received   | (27)             | (38)             |
| Interest paid  | 55               | 25               |
| <b>Operating (loss)/profit before changes in working capital</b> | <b>(9,247)</b>   | 3,978            |
| Decrease/(increase) in inventories                               | 1,514            | (1,069)          |
| Increase in trade and other receivables                          | (3,302)          | (10,269)         |
| Decrease/(increase) in prepayments and deposits                  | 1,677            | (1,939)          |
| Increase in trade and other payables                             | 538              | 1,775            |
| Decrease in due to a related company and directors               | -                | (1,745)          |
| <b>Cash used in operations</b>                                   | <b>(8,820)</b>   | (9,269)          |
| Interest paid  | (55)             | (25)             |
| Hong Kong profits tax paid and prepaid                           | -                | (250)            |
| <b>Net cash used in operating activities</b>                     | <b>(8,875)</b>   | (9,544)          |
| <b>Investing activities</b>                                      |                  |                  |
| Purchase of fixed assets   | (863)            | (1,418)          |
| Bank interest received   | 27               | 38               |
| <b>Net cash used in investing activities</b>                     | <b>(836)</b>     | (1,380)          |
| <b>Financing activities</b>                                      |                  |                  |
| Capital contribution by minority shareholder of a subsidiary     | 47               | -                |
| Issue of shares upon exercise of share options                   | 361              | -                |
| Proceeds from issuance of shares of GL Limited                   | -                | 2,078            |
| Proceeds from issuance of shares upon listing                    | -                | 28,080           |
| Listing expenses   | -                | (6,742)          |
| Proposed dividend paid   | -                | (2,000)          |
| <b>Net cash generated from financing activities</b>              | <b>408</b>       | 21,416           |
| <b>Net (decrease)/increase in cash and cash equivalents</b>      | <b>(9,303)</b>   | 10,492           |
| <b>Cash and cash equivalents at beginning of year</b>            | <b>17,726</b>    | 7,234            |
| <b>Cash and cash equivalents at end of year</b>                  | <b>8,423</b>     | 17,726           |
| <b>Analysis of the balances of cash and cash equivalents</b>     |                  |                  |
| Bank and cash balances   | 8,423            | 17,726           |

The notes on pages 31 to 52 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 1. BACKGROUND OF THE COMPANY

The Company was incorporated in the Cayman Islands on 9 May 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 13 November 2002.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

## 2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also conform with the applicable disclosure requirements of GEM Listing Rule.

Certain comparative figures have been reclassified to conform to the current year's presentation.

The financial statements have been prepared under the historical cost convention.

The Group has adopted the revised Hong Kong Statement of Standard Accounting Practice 2.112 "Income taxes" ("SSAP 12 (revised)") which became effective for the current financial year.

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 22 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense for the year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

### 3. PRINCIPAL ACCOUNTING POLICIES

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

#### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and of all its direct and indirect subsidiaries made up to 31 March.

Subsidiaries are companies in which the Company, directly or indirectly, controls more than one half of the voting power; has power to govern the financial and operating policies and to appoint or remove majority of the members of the board of directors, or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from their effective date of acquisition or up to the effective date of disposal, as the case may be.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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 unamortised goodwill or capital reserve taken to reserves which was not previously charged or recognised in the consolidated income statement.

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 provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (b) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

#### (c) Fixed assets and depreciation

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Fixed assets and depreciation *(Continued)*

Fixed assets are depreciated at a rate sufficient to write off the cost of each asset after considering its residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

|                        |              |
|------------------------|--------------|
| Furniture and fixtures | 6 – 10 years |
| Office equipment       | 5 – 10 years |
| Leasehold improvements | 3 years      |
| Tools and equipment    | 5 years      |
| Motor vehicle          | 5 years      |

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 fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

### (d) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

### (e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis, and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

### 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (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. For the purpose of cash flows, 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) Accounts receivable

Provision is made against accounts receivable to the extent, which they are considered to be doubtful. Accounts receivable in the consolidated balance sheet is stated net of such provision.

#### (h) Operating leases

Leases where substantially all the rewards and risks 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 periods of the respective leases.

#### (i) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from the supply, development and integration of telecommunication systems is recognised when the merchandise is delivered and the related development and integration services are completed.

Licence fee is recognised in accordance with the terms of the underlying licence agreements.

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

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

Refund on value-added tax is recognised upon cash receipt.

#### (j) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over its useful life. Where no development cost can be recognised as an asset, development expenditure is recognised as an expense in the period in which it is incurred.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (k) Employee benefits

#### (i) Retirement benefits

The Group contributes to Mandatory Provident Fund Scheme ("MPF Scheme") which is available to all eligible employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as a percentage of employees' basic salaries. Payments made to the MPF Scheme are charged as an expenses to the income statement as they fall due.

The assets of the MPF Scheme are held separately from those of the Group in an independent administered fund.

The Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on applicable rates in accordance with the relevant government regulations.

#### (ii) Equity compensation benefits

Pursuant to written resolutions of the shareholders of the Company dated 23 October 2002, the Company adopted two share option schemes, namely, Pre-IPO Share Option Scheme and Share Option Scheme. The options are granted and exercisable at predetermined price on the date of grant and no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium account.

### (l) Borrowing costs

Borrowing costs are charged to the income statement in the period in which they are incurred.

### (m) Taxation

Individual companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for items which are non-assessable or disallowable.

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 recognised 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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

### 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (n) Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

#### (o) 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 statement 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.

#### (p) 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 individuals or corporate entities.

#### (q) 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 economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (q) Segment reporting *(Continued)*

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

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

## 4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of the sales of goods, licence fees and services income receivable during the year, after allowance for returns and trade discounts, and after elimination of intra-group transactions.

Turnover and revenue recognised during the year are as follows:

|  | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Turnover                                 |                                |                         |
| Sales of goods and provision of services | <b>36,473</b>                  | 33,116                  |
| Other revenue                            |                                |                         |
| Bank interest income                     | <b>27</b>                      | 38                      |
| Amortisation of negative goodwill        | <b>253</b>                     | 252                     |
| Bad debt recovery                        | <b>227</b>                     | 1,133                   |
| Refund on valued-added tax               | <b>1,775</b>                   | 548                     |
| Exchange gains                           | <b>9</b>                       | 23                      |
| Sundry income                            | <b>93</b>                      | 34                      |
|  | <b>2,384</b>                   | 2,028                   |
| Total revenue                            | <b>38,857</b>                  | 35,144                  |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

### 5. SEGMENTAL INFORMATION

#### Primary reporting format – geographical segments

Geographical segment information is chosen as the primary reporting format because this is more relevant to the Group in making operation and financial decision.

The Group's business can be subdivided into the PRC and Hong Kong markets.

In presenting information on the basis of geographical segment, segment revenue is based on the geographical location of customers. Segment assets, liabilities, capital expenditure and depreciation are based on the geographical locations of assets.

#### Secondary reporting format – business segments

In presenting the information on the basis of business segments, the Group's customers can be broadly divided into two main business segments as follows:

- Backbone operators
- Small to medium size operators and other customers

There are no sales between the business segments.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 5. SEGMENTAL INFORMATION *(Continued)*

### (a) Primary reporting format – geographical segments *(Continued)*

An analysis of the Group's turnover and contribution to operating results and segmental assets and liabilities by geographical areas is as follows:

|  | PRC<br>for the<br>year ended<br>31 March |                  | Hong Kong<br>for the<br>year ended<br>31 March |                  | Elimination<br>for the<br>year ended<br>31 March |                  | Total<br>for the<br>year ended<br>31 March |                  |
|--|--|------------------|--|------------------|--|------------------|--|------------------|
|  | 2004<br>HK\$'000                         | 2003<br>HK\$'000 | 2004<br>HK\$'000                               | 2003<br>HK\$'000 | 2004<br>HK\$'000                                 | 2003<br>HK\$'000 | 2004<br>HK\$'000                           | 2003<br>HK\$'000 |
| REVENUE                                    |  |                  |  |                  |  |                  |  |                  |
| External sales                             | 19,393                                   | 20,528           | 17,080   | 12,588           | -  | -                | 36,473                                     | 33,116           |
| Inter-segment sales*                       | 4,797                                    | 1,670            | 1,099  | 2,846            | (5,896)  | (4,516)          | -  | -                |
|  | <b>24,190</b>                            | 22,198           | <b>18,179</b>                                  | 15,434           | <b>(5,896)</b>                                   | (4,516)          | <b>36,473</b>                              | 33,116           |
| RESULT                                     |  |                  |  |                  |  |                  |  |                  |
| Segment result                             | <b>(10,385)</b>                          | 4,996            | <b>(83)</b>                                    | 2,537            |  |                  | <b>(10,468)</b>                            | 7,533            |
| Unallocated corporate expenses             |  |                  |  |                  |  |                  | <b>(8,613)</b>                             | (7,195)          |
| Interest income                            |  |                  |  |                  |  |                  | <b>27</b>                                  | 38               |
| Sundry income                              |  |                  |  |                  |  |                  | <b>2,357</b>                               | 1,990            |
| Other operating expenses                   |  |                  |  |                  |  |                  | <b>(6,294)</b>                             | -                |
| (Loss)/profit from operations              |  |                  |  |                  |  |                  | <b>(22,991)</b>                            | 2,366            |
| Finance costs                              |  |                  |  |                  |  |                  | <b>(105)</b>                               | (75)             |
| Taxation                                   |  |                  |  |                  |  |                  | <b>-</b>                                   | (252)            |
|  |  |                  |  |                  |  |                  | <b>(23,096)</b>                            | 2,039            |
| Minority interests                         |  |                  |  |                  |  |                  | <b>18</b>                                  | -                |
| (Loss)/profit attributable to shareholders |  |                  |  |                  |  |                  | <b>(23,078)</b>                            | 2,039            |
| ASSETS                                     |  |                  |  |                  |  |                  |  |                  |
| Segment assets                             | <b>13,383</b>                            | 22,375           | <b>9,787</b>                                   | 23,069           |  |                  | <b>23,170</b>                              | 45,444           |
| Unallocated assets                         |  |                  |  |                  |  |                  | <b>43</b>                                  | 172              |
| Total assets                               |  |                  |  |                  |  |                  | <b>23,213</b>                              | 45,616           |
| LIABILITIES                                |  |                  |  |                  |  |                  |  |                  |
| Segment liabilities                        | <b>8,087</b>                             | 7,260            | <b>2,453</b>                                   | 2,742            |  |                  | <b>10,540</b>                              | 10,002           |
| Unallocated liabilities                    |  |                  |  |                  |  |                  | <b>243</b>                                 | 243              |
| Total liabilities                          |  |                  |  |                  |  |                  | <b>10,783</b>                              | 10,245           |
| OTHER INFORMATION                          |  |                  |  |                  |  |                  |  |                  |
| Capital expenditure                        | <b>854</b>                               | 1,418            | <b>9</b>                                       | -                |  |                  | <b>863</b>                                 | 1,418            |
| Depreciation                               | <b>433</b>                               | 178              | <b>1</b>                                       | -                |  |                  | <b>434</b>                                 | 178              |
| Provision for bad and doubtful debts       | <b>12,870</b>                            | 2,352            | <b>997</b>                                     | 130              |  |                  | <b>13,867</b>                              | 2,482            |

\* Inter-segment sales are charged at prevailing market rates.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 5. SEGMENTAL INFORMATION *(Continued)*

### (b) Secondary reporting format – business segments

|                             | Backbone operators |          | Small to medium operators and other customers |          | Unallocated assets |          | Total    |          |
|-----------------------------|--------------------|----------|---|----------|--------------------|----------|----------|----------|
|                             | 2004               | 2003     | 2004  | 2003     | 2004               | 2003     | 2004     | 2003     |
|                             | HK\$'000           | HK\$'000 | HK\$'000                                      | HK\$'000 | HK\$'000           | HK\$'000 | HK\$'000 | HK\$'000 |
| Sales to external customers | 6,946              | 3,124    | 29,527  | 29,992   | -                  | -        | 36,473   | 33,116   |
| Segment assets              | 2,299              | 2,201    | 7,698   | 17,090   | 13,216             | 26,325   | 23,213   | 45,616   |
| Capital expenditure         | -                  | -        | -   | -        | 863                | 1,418    | 863      | 1,418    |

## 6. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is stated after charging the following:

|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------------------|------------------|
| Auditors' remuneration                       | 251              | 298              |
| Provision for bad and doubtful debts         | 13,867           | 2,482            |
| Write off of inventories                     | -                | 425              |
| Cost of inventories sold                     | 29,717           | 19,490           |
| Depreciation                                 | 434              | 178              |
| Operating lease rentals – land and buildings | 547              | 320              |
| Research and development costs               | 6,294            | 1,080            |
| Staff costs, including directors' emoluments | 4,703            | 3,683            |

## 7. STAFF COSTS

|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------------------|------------------|
| Salaries and wages                         | 4,451            | 3,534            |
| Provision for staff welfare benefits       | 169              | 88               |
| Contribution to retirement benefit schemes | 83               | 61               |
|  | 4,703            | 3,683            |

## 8. FINANCE COSTS

|                                    | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| Finance charge on discounted bills | 55               | 25               |
| Bank charges                       | 50               | 50               |
|                                    | 105              | 75               |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 9. TAXATION

(a) Taxation in the consolidated income statement represents:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| PRC enterprise income tax                 | -                              | 243                     |
| Hong Kong profits tax                     |                                |                         |
| – Current                                 | -                              | -                       |
| – Underprovision in respect of prior year | -                              | 9                       |
|   | <b>-</b>                       | <b>252</b>              |

Hong Kong profits tax has been provided at the rate of 17.5% (2003:16%) on the estimated assessable profits for the year of the individual companies within the Group arising in Hong Kong. No provision for Hong Kong profits tax has been made as individual companies within the Group has no assessable profit for the year (2003: Nil).

PRC enterprise income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable to the PRC subsidiaries of the Group. The PRC subsidiaries of the Group which are categorised as foreign investment enterprises are entitled to preferential tax treatments including full exemption from PRC enterprise income tax for two years starting from their first profit-making year following by a 50% reduction for the next consecutive three years.

Taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the basic taxation rate in the PRC applicable to the Group as follows:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| (Loss)/profit before taxation                                 | <b>(23,096)</b>                | 2,291                   |
| Calculated at a taxation rate of 33%                          | <b>(7,622)</b>                 | 756                     |
| Effect of different taxation rates in other countries/regions | <b>2,446</b>                   | (105)                   |
| Effect of tax exemptions granted to the PRC subsidiaries      | -                              | (1,417)                 |
| Tax effect of income not subject to taxation                  | <b>(643)</b>                   | (180)                   |
| Tax effect of expenses not deductible for taxation purposes   | <b>5,254</b>                   | 785                     |
| Effect of tax losses not recognised                           | <b>563</b>                     | 405                     |
| Effect of withholding tax                                     | <b>2</b>                       | 8                       |
| Taxation charge for the year                                  | <b>-</b>                       | <b>252</b>              |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

### 9. TAXATION *(Continued)*

(b) Taxation in the consolidated balance sheet represents:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|---|--------------------------------|------------------|
| Provision for the PRC enterprise income tax | <b>243</b>                     | 243              |
| Provision for Hong Kong profits tax         | -                              | -                |
|   | <b>243</b>                     | 243              |

### 10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of HK\$2,652,000 (2003: HK\$1,702,000) which has been dealt with in the financial statements of the Company.

### 11. (LOSS)/EARNINGS PER SHARE

#### (a) Basic

The calculation of the basic loss per share for the year ended 31 March 2004 is based on the consolidated loss attributable to shareholders of approximately HK\$23,078,000 and on the weighted average of 653,834,508 ordinary shares of the Company in issue during the year.

The calculation of basic earnings per share for the year ended 31 March 2003 is based on the consolidated profit attributable to shareholders of approximately HK\$2,039,000 and on the 650,000,000 shares of the Company in issue after the Company listing on the GEM Board on 13 November 2002 as if those shares had been in issue for that year.

#### (b) Diluted

No diluted loss per share has been presented for the year ended 31 March 2004 since the assumed exercise of the Company's outstanding share options would have no dilutive effect on loss per share.

The calculation of diluted earnings per share for the year ended 31 March 2003 is based on the profit attributable to shareholders of HK\$2,039,000 and the weighted average of 671,837,051 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company had been exercised at the date of issuance.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 12. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Fees  | <b>110</b>                     | 46                      |
| Basic salaries, other allowances and benefits in kind                       | <b>1,129</b>                   | 1,085                   |
| Contributions to retirement benefit schemes<br>for directors of the Company | <b>28</b>                      | 31                      |
|   | <b>1,267</b>                   | 1,162                   |

The executive directors, Mr. Ma Yuanguang received emoluments of HK\$396,300 (2003: HK\$404,858), Mr. Hu Zhi Jian of HK\$360,300 (2003: HK\$378,962), Mr. Li Guo Ping of HK\$72,000 (2003: HK\$63,962), Dr. Lin Jiang of HK\$75,600 (2003: HK\$73,800), and Mr. Chau Siu Piu of HK\$252,300 (2003: HK\$163,000) for the year ended 31 March 2004.

The non-executive director, Mr. Wing Kee Eng, Lee received director fee of HK\$50,000 (2003: HK\$20,833) for the year ended 31 March 2004.

The independent non-executive directors who are also the members of Audit Committee, Mr. Hu Tiejun and Professor Lu Ting Jie received directors' fee of HK\$30,000 (2003: HK\$12,500) and HK\$30,000 (2003: HK\$12,500) respectively, for the year ended 31 March 2004.

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

There has been no arrangement under which a director has waived or agreed to waive any emoluments for the year ended 31 March 2004.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

### 12. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2003: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2003: two) individuals during the year are as follows:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|---|--------------------------------|------------------|
| Basic salaries, other allowances and benefits in kind | <b>297</b>                     | 285              |
| Contributions to retirement benefit schemes           | <b>15</b>                      | 14               |
|   | <b>312</b>                     | 299              |

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

|                      | <b>2004</b> | 2003 |
|----------------------|-------------|------|
| Nil to HK\$1,000,000 | <b>2</b>    | 2    |

### 13. RETIREMENT BENEFITS

The Group participates in mandatory provident fund scheme established under Mandatory Provident Fund Ordinance ("MPF Scheme"). The Group is required to participate in a MPF Scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The Group's contributions to MPF Scheme are set at 5% of employees' relevant income up to a maximum of HK\$1,000 per employee per month.

The employees of the Group participate in a retirement benefit plan (社會保險基金) organised by the Guangzhou Labour and Social Security Department (廣州市勞動和社會保障局) of the PRC under which the Group was required to make monthly defined contributions to the plan at certain rates of the relevant employee's basic salary during the year.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments discussed above.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 14. FIXED ASSETS

| Group                           | Furniture<br>and fixtures<br><i>HK\$'000</i> | Office<br>equipment<br><i>HK\$'000</i> | Leasehold<br>improvements<br><i>HK\$'000</i> | Tools and<br>equipment<br><i>HK\$'000</i> | Motor<br>vehicle<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---------------------------------|--|--|--|---|-------------------------------------|--------------------------|
| <b>Cost</b>                     |  |  |  |   |                                     |                          |
| At beginning of year            | 69   | 468                                    | 181  | 1,292                                     | 276                                 | 2,286                    |
| Additions                       | –  | 241                                    | –  | 622                                       | –                                   | 863                      |
| <b>At end of year</b>           | <b>69</b>                                    | <b>709</b>                             | <b>181</b>                                   | <b>1,914</b>                              | <b>276</b>                          | <b>3,149</b>             |
| <b>Accumulated depreciation</b> |  |  |  |   |                                     |                          |
| At beginning of year            | 27   | 79                                     | 181  | 146                                       | 46                                  | 479                      |
| Charge for the year             | 7  | 97                                     | –  | 283                                       | 47                                  | 434                      |
| <b>At end of year</b>           | <b>34</b>                                    | <b>176</b>                             | <b>181</b>                                   | <b>429</b>                                | <b>93</b>                           | <b>913</b>               |
| <b>Net book value</b>           |  |  |  |   |                                     |                          |
| <b>At end of year</b>           | <b>35</b>                                    | <b>533</b>                             | <b>–</b>                                     | <b>1,485</b>                              | <b>183</b>                          | <b>2,236</b>             |
| At beginning of year            | 42   | 389                                    | –  | 1,146                                     | 230                                 | 1,807                    |

## 15. NEGATIVE GOODWILL

|                                 | Group                   |                         |
|---------------------------------|-------------------------|-------------------------|
|                                 | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| At beginning and end of year    | <b>1,299</b>            | 1,299                   |
| <b>Accumulated amortisation</b> |                         |                         |
| At beginning of year            | <b>1,046</b>            | 794                     |
| Amortisation for the year       | <b>253</b>              | 252                     |
| At end of year                  | <b>1,299</b>            | 1,046                   |
| <b>Net book value</b>           |                         |                         |
| At end of year                  | –                       | 253                     |
| At beginning of year            | <b>253</b>              | 505                     |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 16. INVESTMENT IN SUBSIDIARIES

|                          | Company          |                  |
|--------------------------|------------------|------------------|
|                          | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Unlisted shares, at cost | 21               | 21               |

Details of the subsidiaries as at 31 March 2004 are as follows:

| Name of Company                                 | Place of incorporation/<br>operation | Issued and<br>fully paid share<br>capital/registered<br>capital | Proportion of<br>nominal value<br>of issued share<br>capital/registered<br>capital held<br>by the Company |          | Principal activities  |
|---|--------------------------------------|---|---|----------|---|
|   |                                      |   | Direct  | Indirect |   |
|   |                                      |   |   |          |   |
| GL Limited                                      | British Virgin<br>Islands            | 21,052 ordinary shares<br>of US\$1 each                         | 100%  | –        | Investment holding  |
| Hilltop Holdings<br>Group Limited               | British Virgin<br>Islands            | 10,000 ordinary shares<br>of US\$1 each                         | –   | 100%     | Investment holding and<br>holding of software<br>rights   |
| Guangzhou Global<br>Link Communications<br>Inc. | the PRC                              | Registered capital<br>HK\$10,000,000                            | –   | 100%     | Provision of value-<br>added<br>telecommunications<br>solutions,<br>telecommunications<br>application software<br>and networking<br>solutions |
| 北京國聯偉業<br>通信技術有限公司                              | the PRC                              | Registered capital<br>RMB1,000,000                              | –   | 95%      | Provision of value-<br>added<br>telecommunications<br>solutions,<br>telecommunications<br>application software<br>and networking<br>solutions |
| Global Link<br>Communications<br>(HK) Limited   | Hong Kong                            | 100 ordinary<br>shares of<br>HK\$1 each                         | –   | 100%     | Provision of value-added<br>telecommunications<br>solutions and<br>telecommunications<br>application software                                 |
| Plentiful Development<br>Limited                | British Virgin<br>Islands            | 1 ordinary share of<br>US\$1                                    | –   | 100%     | Dormant   |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 17. DUE FROM/(TO) SUBSIDIARIES

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

## 18. INVENTORIES

Inventories represent computer hardware and accessories, all of which were carried at cost.

## 19. TRADE AND OTHER RECEIVABLES

|                   | Group            |                  |
|-------------------|------------------|------------------|
|                   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Trade receivables | 9,997            | 19,291           |
| Other receivables | 285              | 551              |
| Bills receivables | 188              | 837              |
|                   | <b>10,470</b>    | 20,679           |

Details of the ageing analysis of trade receivables are as follows:

|                         | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|-------------------------|------------------|------------------|
| Between 0 to 90 days    | 4,744            | 8,755            |
| Between 91 to 180 days  | 2,907            | 3,880            |
| Between 181 to 365 days | 1,842            | 5,063            |
| Between 1 to 2 years    | 504              | 1,593            |
|                         | <b>9,997</b>     | 19,291           |

Customers are generally granted with credit terms of 30 to 90 days.

Included in trade receivables are retention monies receivable of approximately HK\$1,223,500 (2003: HK\$1,054,000).

## 20. BANK AND CASH BALANCES

Included in the bank and cash balances of the Group was a sum of approximately HK\$2,939,000 (2003: HK\$2,957,000) deposited with banks in the PRC and denominated in Renminbi. The conversion of these balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

### 21. TRADE AND OTHER PAYABLES

|                              | Group            |                  |
|------------------------------|------------------|------------------|
|                              | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Trade payables               | 6,894            | 3,418            |
| Other payables               | 2,857            | 4,790            |
| Bills payables               | 753              | 1,794            |
| Customers' deposits received | 36               | –                |
|                              | <b>10,540</b>    | 10,002           |

Bills payables are repayable within three months.

Details of the ageing analysis of trade payables are as follows:

|                         | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|-------------------------|------------------|------------------|
| Between 0 to 90 days    | 3,900            | 3,195            |
| Between 91 to 180 days  | 2,047            | 189              |
| Between 181 to 365 days | 45               | 34               |
| Between 1 to 2 years    | 902              | –                |
|                         | <b>6,894</b>     | 3,418            |

### 22. DEFERRED TAXATION

At 31 March 2004, the Group has unused tax losses of HK\$5,696,000 (2003: HK\$2,539,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$69,000 (2003: Nil) that will expire according to the prevailing tax laws and regulations in the country in which the Group operates. Other losses may be carried forward indefinitely.

At 31 March 2004, the aggregate amount of temporary differences associated with bad and doubtful debt provisions for which deferred tax assets have not been recognised was HK\$16,234,000 (2003: HK\$3,364,000). No asset has been recognised in respect of these differences because the Directors are of the opinion that these provisions will not be accepted by the relevant local tax authority as tax deductible.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 23. SHARE CAPITAL

|   | Note | Company              |               | 2003          |          |
|---|------|----------------------|---------------|---------------|----------|
|   |      | 2004                 | 2004          | No. of shares | HK\$'000 |
|   |      | No. of shares        | HK\$'000      | No. of shares | HK\$'000 |
| Authorised:                                       |      |                      |               |               |          |
| Ordinary share of<br>HK\$0.01 each                |      | <b>2,000,000,000</b> | <b>20,000</b> | 2,000,000,000 | 20,000   |
| Issued and fully paid:                            |      |                      |               |               |          |
| At 1 April 2003/2002                              |      | <b>650,000,000</b>   | <b>6,500</b>  | 2,100,000     | 21       |
| Issuance of shares for<br>exercised share options | 24   | <b>10,024,500</b>    | <b>100</b>    | –             | –        |
| Capitalisation of share<br>premium account        | (a)  | –                    | –             | 569,900,000   | 5,699    |
| Placement of shares                               | (b)  | –                    | –             | 78,000,000    | 780      |
| At 31 March 2004/2003                             |      | <b>660,024,500</b>   | <b>6,600</b>  | 650,000,000   | 6,500    |

- (a) Pursuant to a written resolution of all shareholders passed on 24 October 2002, the directors were authorised to capitalise the amount of HK\$5,699,000 from the amount standing to the credit of the share premium account of the Company and to appropriate such amount as capital to pay up in full at par 569,900,000 shares for allotment and issued to the persons whose names appear on the register of members of the Company as at the close of business on 24 October 2002, pro-rata to its/their then existing shareholdings in the Company.
- (b) Pursuant to the listing of the shares of the Company on GEM on 13 November 2002, 78,000,000 shares of the Company were issued by way of a placing for cash of HK\$0.36 per share. The excess of the issued price over the par value of the shares issued has been credited to the share premium account of the Company.

## 24. SHARE OPTION SCHEMES

The Group operates two share option schemes, namely, Pre-IPO Share Option Scheme and Share Option Scheme.

Pursuant to the Pre-IPO Share Option Scheme of the Company adopted on 24 October 2002, the directors, employees, consultants and adviser of the Group were granted share options to subscribe for shares of the Company at an exercise price of HK\$0.036 each. Share options granted under the Pre-IPO Share Option Scheme have a duration of 10 years from the date of grant of the options and exercisable after one to two years from the date of listing of the shares of the Company on the GEM.

Under the Share Option Scheme of the Company adopted on 24 October 2002, the directors, employees and business associates may be granted share options to subscribe for shares of the Company at an exercise price determined by the Board of Directors and shall be at least the highest of (i) the nominal value of a Share; (ii) the closing price of one Share on the offer date; or (iii) the average closing price of the Shares for the five business days immediately preceding the offer date. The options issued under the Share Option Scheme are exercisable within a period of not more than 10 years from the offer date and subject to vesting provisions as determined by the Board of Directors.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 24. SHARE OPTION SCHEMES *(Continued)*

Each option gives the holder the right to subscribe for one share of the Company. A consideration of HK\$1 will be payable by the grantee upon acceptance of the offer of share options.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme were disclosed in the prospectus of the Company dated 31 October 2002.

Movements in share options are as follows:

|                                      | Note | 2004                           |                        | 2003                           |                        |
|--------------------------------------|------|--------------------------------|------------------------|--------------------------------|------------------------|
|                                      |      | Number of share options        |                        | Number of share options        |                        |
|                                      |      | Pre-IPO Share<br>Option Scheme | Share<br>Option Scheme | Pre-IPO Share<br>Option Scheme | Share<br>Option Scheme |
| Outstanding at the beginning of year |      | 57,410,000                     | -                      | -                              | -                      |
| Granted                              | (a)  | -                              | 6,510,000              | 57,771,000                     | -                      |
| Exercised                            | (b)  | (10,024,500)                   | -                      | -                              | -                      |
| Lapsed                               |      | (665,500)                      | (280,000)              | (361,000)                      | -                      |
| Outstanding at the end of year       |      | 46,720,000                     | 6,230,000              | 57,410,000                     | -                      |
| Vested at the end of year            |      | 18,472,500                     | -                      | -                              | -                      |

(a) Details of share options granted under the Share Option Scheme during the year with total considerations of HK\$33:

| Exercise period                    | Exercise price | Number of<br>share options |
|------------------------------------|----------------|----------------------------|
| 10 December 2004 – 9 December 2013 | HK\$0.132      | 3,255,000                  |
| 10 December 2005 – 9 December 2013 | HK\$0.132      | 3,255,000                  |

(b) Details of share options exercised under the Pre-IPO Share Option Scheme during the year:

| Exercise date    | Market<br>value per share<br>at exercise date | Exercise<br>price | Proceeds<br>received | Number of<br>share options |
|------------------|---|-------------------|----------------------|----------------------------|
| 13 November 2003 | HK\$0.198                                     | HK\$0.036         | HK\$360,882          | 10,024,500                 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

## 24. SHARE OPTION SCHEMES *(Continued)*

Terms of unexpired and unexercised share options at 31 March 2004 are:

| Exercise period                    | Exercise price | 2004<br>No. of<br>share options | 2003<br>No. of<br>share options |
|------------------------------------|----------------|---------------------------------|---------------------------------|
| 13 November 2003 – 23 October 2012 | HK\$0.036      | <b>18,472,500</b>               | 28,705,000                      |
| 13 November 2004 – 23 October 2012 | HK\$0.036      | <b>28,247,500</b>               | 28,705,000                      |
| 10 December 2004 – 9 December 2013 | HK\$0.132      | <b>3,115,000</b>                | –                               |
| 10 December 2005 – 9 December 2013 | HK\$0.132      | <b>3,115,000</b>                | –                               |
|                                    |                | <b>52,950,000</b>               | 57,410,000                      |

## 25. RESERVES

### Company

|   | Share premium<br><i>HK\$'000</i> | Accumulated losses<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|----------------------------------|---------------------------------------|--------------------------|
| At the date of incorporation on 9 May 2002    | –                                | –                                     | –                        |
| New shares issued                             | 27,300                           | –                                     | 27,300                   |
| Capitalisation issue of shares                | (5,699)                          | –                                     | (5,699)                  |
| Issue expenses in connection with placing     | (6,742)                          | –                                     | (6,742)                  |
| Loss for the year                             | –                                | (1,702)                               | (1,702)                  |
| At 31 March 2003                              | 14,859                           | (1,702)                               | 13,157                   |
| New shares issued for exercised share options | 261                              | –                                     | 261                      |
| Loss for the year                             | –                                | (7,652)                               | (7,652)                  |
| At 31 March 2004                              | 15,120                           | (9,354)                               | 5,766                    |

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 relevant provisions of the Articles of Association of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

### 26. COMMITMENTS

At 31 March 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|---|--------------------------------|------------------|
| Not later than one year                           | <b>540</b>                     | 446              |
| Later than one year and not later than five years | -                              | 414              |
|   | <b>540</b>                     | 860              |

### 27. CONTINGENT LIABILITIES

At 31 March 2004, banking facilities amounting to HK\$2,500,000 (2003: HK\$2,500,000) granted by a bank to a wholly owned subsidiary were guaranteed by the Company.