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Global Link

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Global Link Communications Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8060)

Interim Report 2004

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

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

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report. This report, for which the directors (“the Directors”) of Global Link Communications Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Turnover for the six months ended 30 September 2004 was HK\$16,629,000 representing a 0.6% decrease from the last corresponding period.

Net loss attributable to shareholders amounted to approximately HK\$1,673,000 representing a 56% improvement from the last corresponding period.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

The board of directors (the “Board”) of Global Link Communications Holdings Limited (the “Company”) announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the three months and the six months ended 30 September 2004 together with the unaudited comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended		For the six months ended	
		30 September		30 September	
		2004	2003	2004	2003
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2 & 4	8,376	7,573	16,629	16,734
Cost of sales		(6,288)	(6,809)	(12,682)	(14,142)
Gross profit		2,088	764	3,947	2,592
Other revenue		1,258	122	1,710	1,175
Selling expenses		(889)	(527)	(1,905)	(809)
Administrative expenses		(3,181)	(4,940)	(5,431)	(6,587)
Loss from operations	3	(724)	(4,581)	(1,679)	(3,629)
Finance costs		(2)	(15)	(8)	(88)
Loss before taxation		(726)	(4,596)	(1,687)	(3,717)
Taxation	5	-	(4)	(16)	(115)
		(726)	(4,600)	(1,703)	(3,832)
Minority interests		15	17	30	22
Loss attributable to shareholders		(711)	(4,583)	(1,673)	(3,810)
Dividend	6	0	0	0	0
Loss per share	7				
- basic (in HK cents)		(0.11)	(0.7)	(0.25)	(0.6)
- diluted (in HK cents)		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2004 (Unaudited) <i>HK\$'000</i>	As at 31 March 2004 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	8	2,036	2,236
CURRENT ASSETS			
Inventories		785	55
Trade and other receivables	9	10,489	10,470
Prepayment and deposits		763	1,986
Tax refundable		43	43
Bank and cash balances		7,408	8,423
		19,488	20,977
CURRENT LIABILITIES			
Trade and other payables	10	10,538	10,540
Provision for taxation	5	259	243
		10,797	10,783
NET CURRENT ASSETS		8,691	10,194
MINORITY INTERESTS		1	(29)
NET ASSETS		10,728	12,401
CAPITAL AND RESERVES		10,728	12,401

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(1,000)	(7,911)
Net cash outflow from investing activities	(15)	(754)
Net cash inflow from financing	0	47
Decrease in cash and cash equivalents	(1,015)	(8,618)
Cash and cash equivalents at 1 April	8,423	17,726
Cash and cash equivalents at 30 September	7,408	9,108

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Merger reserve	Foreign exchange translation reserve	Retained profits/ (accumulated losses)	Statutory reserve fund	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(note a)</i>			<i>(note b)</i>	
As at 1 April 2003	6,500	14,859	2,135	12	10,792	820	35,118
Loss for the period	-	-	-	-	(3,810)	-	(3,810)
Transfer to statutory reserve fund	-	-	-	-	(142)	142	-
As at 30 September 2003	<u>6,500</u>	<u>14,859</u>	<u>2,135</u>	<u>12</u>	<u>6,840</u>	<u>962</u>	<u>31,308</u>
As at 1 April 2004	6,600	15,120	2,135	12	(12,286)	820	12,401
Loss for the period	-	-	-	-	(1,673)	-	(1,673)
Transfer to statutory reserve fund	-	-	-	-	(71)	71	-
As at 30 September 2004	<u>6,600</u>	<u>15,120</u>	<u>2,135</u>	<u>12</u>	<u>(14,030)</u>	<u>891</u>	<u>10,728</u>

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 set off accumulated losses or increase the capital.

NOTES TO THE FINANCIAL STATEMENTS

1. Background of the Company and basis of preparation

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 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 Institute of Certified Public 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.

2. Turnover and revenue

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

3. Loss from operations

Loss from operations is stated after charging the following:

	For the three months ended		For the six months ended	
	30 September		30 September	
	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	133	120	224	215
Operating lease rentals	154	142	307	249
Staff costs including directors' emolument	1,547	1,156	2,765	2,206
	<u>1,547</u>	<u>1,156</u>	<u>2,765</u>	<u>2,206</u>

4. 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.

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.

(a) *Primary reporting format – geographical segments*

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

	PRC		Hong Kong		Elimination		Total	
	For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September	
	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE								
External sales	11,814	8,616	4,815	8,118	-	-	16,629	16,734
Inter-segment sales*	0	1,649	771	472	(771)	(2,121)	-	-
	<u>11,814</u>	<u>10,265</u>	<u>5,586</u>	<u>8,590</u>	<u>(771)</u>	<u>(2,121)</u>	<u>16,629</u>	<u>16,734</u>
RESULT								
Segment result	<u>1,330</u>	<u>(1,171)</u>	<u>461</u>	<u>306</u>			1,791	(865)
Unallocated corporate expenses							(5,180)	(3,939)
Interest income							9	17
Sundry income							1,701	1,158
Loss from operations							(1,679)	(3,629)
Finance costs							(8)	(88)
Taxation							(16)	(115)
							(1,703)	(3,832)
Minority interests							30	22
Loss attributable to shareholders							<u>(1,673)</u>	<u>(3,810)</u>

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

(b) *Secondary reporting format – business segments*

	Backbone operators		Small to medium operators and other customers		Unallocated assets		Total	
	For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September	
	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	2,798	5,180	13,831	11,554	-	-	16,629	16,734
Segment assets	3,215	4,563	6,788	12,317	11,521	20,529	21,524	37,409
Capital expenditure	-	-	-	-	24	770	24	770

5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the six months ended 30 September 2004 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 six months ended 30 September 2004 (2003: Nil).

The PRC enterprise income tax ("EIT") 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 EIT for two years starting from their first profit-making year following by a 50% reduction for the next consecutive three years. The first profit-making year was year 2001 and therefore there was EIT tax charge for the year 2003. EIT tax charge for the six months ended 30 September 2004 was HK\$16,000 (2003: HK\$115,000).

There was no significant unprovided deferred taxation for the six months ended 30 September 2004 (2003: Nil).

6. Dividend

The Board does not recommend an interim dividend for the six months ended 30 September 2004 (six months ended 30 September 2003: Nil)

7. Loss per share

(a) Basic

The calculation of the basic loss per share for the three months ended 30 September 2004 is based on the consolidated loss attributable to shareholders of approximately HK\$711,000 (2003: approximately HK\$4,583,000) and on the weighted average of 660,024,500 shares (2003: 650,000,000 shares) of the Company in issue during the period.

The calculation of the basic loss per share for the six months ended 30 September 2004 is based on the consolidated loss attributable to shareholders of approximately HK\$1,673,000 (2003: approximately HK\$3,810,000) and on the weighted average of 660,024,500 shares (2003: 650,000,000 shares) of the Company in issue during the period.

(b) Diluted

No diluted loss per share has been presented for the three months and six months ended 30 September 2004 and 2003 since the assumed exercise of the Company's outstanding share options would have no dilutive effect on loss per share.

8. Fixed assets

	Six months ended 30 September 2004 (Unaudited) HK\$'000
Opening balance	2,236
Additions	24
Depreciation	(224)
	<hr/>
Closing balance	<u><u>2,036</u></u>

9. Trade and other receivables

	As at 30 September 2004 (Unaudited) HK\$'000	As at 31 March 2004 (Audited) HK\$'000
Trade receivables	9,996	9,997
Other receivables	339	285
Bills receivables	154	188
	<hr/>	<hr/>
	<u><u>10,489</u></u>	<u><u>10,470</u></u>

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

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

	As at 30 September 2004 (Unaudited) HK\$'000	As at 31 March 2004 (Audited) HK\$'000
Between 0 to 90 days	3,735	4,744
Between 91 to 180 days	4,689	2,907
Between 181 to 365 days	1,135	1,842
Between 1 to 2 years	437	504
	<hr/>	<hr/>
	<u><u>9,996</u></u>	<u><u>9,997</u></u>

10. Trade and other payables

	As at 30 September 2004 (Unaudited) HK\$'000	As at 31 March 2004 (Audited) HK\$'000
Trade payables	7,463	6,894
Other payables	3,075	2,857
Bills payables	0	753
Customers' deposit received	0	36
	<u>10,538</u>	<u>10,540</u>

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

	As at 30 September 2004 (Unaudited) HK\$'000	As at 31 March 2004 (Audited) HK\$'000
Between 0 to 90 days	3,340	3,900
Between 91 to 180 days	1,930	2,047
Between 181 to 365 days	2,051	45
Between 1 to 2 years	142	902
	<u>7,463</u>	<u>6,894</u>

11. Commitments

At 30 September 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	As at 30 September 2004 (Unaudited) HK\$'000	As at 31 March 2004 (Audited) HK\$'000
Not later than one year	238	540
	<u>238</u>	<u>540</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

The Group is principally engaged in the research and development and provision of telecommunications software solutions for new telecommunications services and value-added telecommunications services as well as provision of one-stop multi-services telecommunications business solutions for telecommunications operators (including backbone operators) in the PRC and in the other parts of the Asia-Pacific region.

During the period under review, the Group has kept its strategy, “to increase customers’ competitive advantage through creative products, to give impetus to customers’ earning growth through unique characteristic solutions”, and the Group has continued to provide new business solutions to backbone operators and newly developed telecommunications services providers. Resulting from the increase in market share and successful cases, the Group has increased the reputation of “Global Link” brand name. In the nation-wide comment carried out by “Communication World”, an authoritative organisation in the PRC telecommunications industry, the Group has been classified as “PRC Telecommunications Industry 100 successful software solutions in year 2004”.

Focusing on the research and development on telecommunications, the Group has taken into account the telecommunications industry’s system reform and development of new technology application, plotted leading network solutions and new business model for customers. These have strengthened the Group’s reputation and widen the Group’s development prospect in the market.

During the period, the Group has strengthened the development of its marketing and sales force, and has focused on the restructuring of competitive advantage. “Salira Optical network Systems Inc.”, a high-tech network product manufacturer in USA, after allied with Lucent Technologies, has allied with the Group as its second allied partner in the PRC, for their product selling and service in the PRC.

Viewing into the future, the Group will expand its market share through core competitive product with intellectual property, and identify new market demand and application together with operators. The Directors believed that the Group’s competitive advantage can then be fully utilized and the shareholders of the Company can achieve a better return. With the “Global Link” brand name more renowned and through the more strengthened marketing and sales force, launching the Group’s creative product and alliance partner’s leading product into the market will have significant contribution to the Group’s future earnings.

Financial review

Turnover was HK\$16,629,000 for the six months ended 30 September 2004, which was close with that of the last corresponding period. However, the Group has recorded HK\$3,947,000 gross profit, represent a 52% increase compared with that of last corresponding period. Gross profit margin increased from 15% to 24% which improved the loss attributable to shareholders to HK\$1,673,000.

During the period, the Group has strengthened its marketing and sales force, which caused the increase in selling expenses. The increase in other revenue is caused by the written back of bad debts provision as a result of strengthened credit control policy.

In view of the industry nature and the Group's development strategy, the Group has to keep investing resources in the research and development of telecommunications. However, the Group's gross profit has increased following the launching of new products. The Directors believed that, by adopting the continuous product development strategy, the new products and software solutions to be developed in the near future can capture more market share and bring a remarkable return for the Group.

Capital structure

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 or identified by the directors of the Company (the "Directors") during the normal course of business. As at 30 September 2004, the Group has a total cash and bank balance amounted to approximately HK\$7,408,000, which mainly generated from initial market capitalisation and daily operation.

Employee information

As at 30 September 2004, the Group had 77 employees (30 September 2003: 72 employees). 65 and 12 of them are working in the PRC and Hong Kong respectively. For the six months ended 30 September 2004, staff costs including Directors' remuneration was approximately HK\$2,765,000 (six months ended 30 September 2003: HK\$2,206,000). The increase in staff cost was mainly due to the increase in number of staff and the directors' remuneration during the period.

Liquidity, financial resources and gearing

As at 30 September 2004, the Group had net current assets of approximately HK\$8,691,000, of which approximately HK\$7,408,000 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.

Contingent liabilities

At 30 September 2004, banking facilities amounting to HK\$2,500,000 (31 March 2004: HK\$2,500,000) granted by a bank to a wholly owned subsidiary were guaranteed by the Company.

Save as disclosed herewith, no information in relation to the Group's performance has changed materially from the information disclosed in the annual report of the Company for the year ended 31 March 2004.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at 30 September 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	Approximate percentage of shareholdings
Ma Yuanguang	Company	Beneficial owner	170,530,000 ordinary shares Long position	25.84%
		Beneficial owner	10,556,000 ordinary shares Long position (Note 1)	1.57%
Hu Zhi Jian	Company	Interest of controlled corporation	84,660,000 ordinary shares Long position (Note 2)	12.83%
		Beneficial owner	8,889,000 ordinary shares Long position (Note 1)	1.33%
Chau Siu Piu	Company	Beneficial owner	77,883,680 ordinary shares Long position	11.80%
		Beneficial owner	7,778,000 ordinary shares Long position (Note 1)	1.16%

Name of Director	Company/ name of associated corporation	Capacity	Number and class of securities	Approximate percentage of shareholdings
Li Guo Ping	Company	Interest of controlled corporation	58,120,000 ordinary shares Long position (Note3)	8.81%
		Beneficial owner	4,861,000 ordinary shares Long position (Note 1)	0.73%
Lo Kam Hon, Gary	Company	Beneficial owner	350,000 ordinary shares Long position (Note 1)	0.05%
Wing Kee Eng, Lee	Company	Beneficial owner	2,778,000 ordinary shares Long position (Note 1)	0.42%
Hu Tiejun	Company	Beneficial owner	833,000 ordinary shares Long position (Note 1)	0.13%
Lu Ting Jie	Company	Beneficial owner	416,500 ordinary shares Long position	0.06%
		Beneficial owner	416,500 ordinary shares Long position (Note 1)	0.06%

Note:

- Share options to subscribe for 10,556,000 shares, 8,889,000 shares, 7,778,000 shares, 4,861,000 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, 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, Lu Ting Jie had exercised 416,500 share options under the Pre-IPO Share Option Scheme.

On 10 December 2003, share options to subscribe for 350,000 shares of the Company were granted to Lo Kam Hon, Gary pursuant to the share option scheme (the "Share Option Scheme") adopted by the Company on 24 October 2002.

2. Bright Cosmos Holdings Limited, the entire issued share capital of which is held by Hu Zhi Jian, is interested in the 84,660,000 ordinary shares of the Company.
3. Top Legend Investment Limited, the entire issued share capital of which is held by Li Guo Ping, is interested in the 58,120,000 ordinary shares of the Company.

Save as disclosed above, as at 30 September 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 September 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:

Name	Capacity	Class and number of securities	Approximate percentage of shareholdings
Leung Kin Man	Beneficial owner	50,000,000 ordinary shares Long position	7.58%

Save as disclosed above, as at 30 September 2004, so far is known to the Directors, there was no person (not being a Director or a chief executive of the Company) 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.

USE OF PROCEEDS

	For the six months ended 30 September 2004	
	As stated in the Prospectus <i>(HK\$ million)</i>	Actual amount Used <i>(HK\$ million)</i>
Enhancement of existing solutions and services	0.6	0.6
Enhancement of research and development capabilities on new solutions and services	0.4	0.4
Establishment of business partnerships and co-operation with universities and research institutes	0	0
Market expansion and business development	1.0	1.0
Acquisitions of hi-tech projects, strategic investments and as general working capital	1.0	1.0
	<hr/>	<hr/>
Total	<u>3.0</u>	<u>3.0</u>

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

COMPARISON BETWEEN ACTUAL BUSINESS PROGRESS AND BUSINESS OBJECTIVES STATED IN THE PROSPECTUS:

Business objectives as stated in the Prospectus

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

Business Development

- | | |
|--|---|
| <ul style="list-style-type: none">• Establish one to two more subsidiaries in selected regions of the PRC which are experiencing the fastest growth in telecommunications operation.• Enter into agency agreements in the Asia-Pacific region, including Singapore, Australia and Taiwan. | <ul style="list-style-type: none">• Plan postponed as the PRC telecommunications market not yet fully open, and the development of small and medium operators is slower than expected.• Signed an agency agreement with a Singapore company. |
|--|---|

Research and Development

- | | |
|--|---|
| <ul style="list-style-type: none">• Continue to research and develop next generation switching and network application system software.• Research and develop management software that is capable to adapt to the new technology standard and new operations of the telecommunications operators. | <ul style="list-style-type: none">• In progress, software in development as planned.• Development completed, launched into market for sales. |
|--|---|

Solutions and Services

- | | |
|--|---|
| <ul style="list-style-type: none">• Launch VoIP switching system and application software.• Launch new value-added telecommunications services solutions. | <ul style="list-style-type: none">• Marketing campaign started.• Marketing campaign started. |
|--|---|

Business objectives as stated in the Prospectus

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

Sales and Marketing

- | | |
|---|---|
| <ul style="list-style-type: none">• Consolidate businesses in the Asia-Pacific region, including Singapore, Malaysia, Pakistan, Australia, Hong Kong and Taiwan.• Expand the sales of the Group's solutions and services in the Asia-Pacific region, including Vietnam, Thailand and Indonesia.• Increase the efforts in expanding the PRC businesses, targeting on the telecommunications operators in the PRC, especially the virtual operators.• Promote the new value-added telecommunications services solutions, the VoIP switching system and application software. | <ul style="list-style-type: none">• In progress as planned and target achieved.• Have developed sales in that region, including Brunei and People's Republic of Bangladesh.• Marketing campaign completed as scheduled.• Marketing campaign started. |
|---|---|

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 under the Pre-IPO Share Option Scheme				
		Number of share options granted	Outstanding as at 1 April 2004	Lapsed during the period under review	Exercised during the period under review	Outstanding as at 30 September 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 (<i>resigned on 31 May 2004</i>)	24 October 2002	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	416,500	–	–	416,500
<i>Senior Management</i>						
Feng Yan Fa	24 October 2002	778,000	389,000	–	–	389,000
Li Guo Hui	24 October 2002	611,000	305,500	–	–	305,500
Zhang Li Ming	24 October 2002	611,000	305,500	–	–	305,500
Zhang Wei Jing	24 October 2002	500,000	250,000	–	–	250,000
Advisers/consultants	24 October 2002	9,054,000	4,735,500	–	–	4,735,500
Other employees of the Group	24 October 2002	7,467,000	3,512,000	69,500	–	3,442,500
Total		57,771,000	46,720,000	69,500	–	46,650,500

Under the terms of the Share Option Scheme, 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.

Details of share options granted pursuant to the Share Option Scheme are as follows:

Capacity	Date of grant	Number of share options under Share Option Scheme					Exercise price
		Number of share options granted	Outstanding as at 1 April 2004	Lapsed during the period under review	Exercised during the period under review	Outstanding as at 30 September 2004	
<i>Executive Directors</i>							
Lo Kam Hon, Gary	10 December 2003	350,000	350,000	-	-	350,000	HK\$0.132
Employees	10 December 2003	6,160,000	5,880,000	1,000,000	-	4,880,000	HK\$0.132
	<u>Total</u>	<u>6,510,000</u>	<u>6,230,000</u>	<u>1,000,000</u>	<u>-</u>	<u>5,230,000</u>	

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.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in the Prospectus.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

None of the members of the Group had purchased, sold or redeemed any of the Shares during the period under review.

SPONSOR'S INTERESTS

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

As at 30 September 2004, none of Kingsway, its directors, employees nor associates had any shareholding interest in the securities of the Company or any member of the Group nor had any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group pursuant to Rules 6.36 and 18.63 of the GEM Listing Rules.

BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules during the period under review.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The audit committee has 3 members, namely Mr. Hu Tiejun, Professor Lu Ting Jie and Mr. Leung Kwok Keung, all being independent non-executive Directors. The Group's unaudited interim results for the six months ended 30 September 2004 have been reviewed by the audit committee, which was of the opinion that such results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

By order of the Board
Ma Yuanguang
Chairman

Hong Kong, 10 November 2004

As at the date of this report, the executive directors of the Company are Mr. Ma Yuanguang, Mr. Hu Zhi Jian, Mr. Li Guo Ping, Mr. Chau Siu Piu and Mr. Lo Kam Hon, Gary; the non-executive director of the Company is Mr. Wing Kee Eng, Lee; and the independent non-executive directors of the Company are Mr. Hu Tiejun, Mr. Lu Ting Jie and Mr. Leung Kwok Keung.