



NEOLINK CYBER TECHNOLOGY (HOLDING) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2000

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The Directors collectively and individually accept full responsibility for this report which is given in compliance with the requirements (Rules Governing the Listing of Securities on the Growth Enterprise Market) of the Stock Exchange. The Directors confirm, having made all reasonable enquires, that to the best of their knowledge and belief, (i) the information contained in the report are accurate and complete in all material aspects and not misleading; (ii) there are no other facts the omission of which would make any statement herein misleading; and (iii) opinions expressed in this report have been arrived at after due and careful consideration on the basis and assumptions of reasonableness and fairness.

CHAIRMAN'S STATEMENT

I am pleased to announce the quarterly results of Neolink Cyber Technology (Holding) Limited ("the Company") and its subsidiaries ("the Group") for the three months ended 30th September, 2000.

Our total turnover was approximately HK\$1,296,000 for the three months ended 30th September, 2000 which is lower than the previous quarter. The decrease is mainly due to the postponement of product delivery of PRC government use radio trunking systems to the last quarter of 2000. The Group has devoted more time in R & D to comply to the new equipment requirements and acceptance standard of the government and continues to obtain orders from the government under the new requirements.

The Group has also actively shifted the business strategy in telemedia services so as to meet the customer need of the fast-growing call centre service market in China. We have shifted the investment in traditional telemedia services to the development of call centre service which is one of the future business directions of the Group.

In our internet business, the Group has set the network terminal as the future development direction and the R & D centre in Shenzhen has successfully developed a new model of such terminal.

We believe that the business strategy set in response to the latest market changes in the third quarter of 2000, together with the R & D progress and product development in government use digital encryption technology, multimedia call centre, network-based mobile PDA and new GPS-based vehicle despatch system, has built a good foundation for our business growth in the fourth quarter of 2000 and 2001. With our strength built on the R & D achievements, we expect the Group will achieve good results in the forthcoming quarter.

On behalf of the Board of Directors, I wish to express our sincere appreciation to all the employees of the Group for their commitment and contribution which will of utmost importance to the business success of the Group in the future.

I also wish to express our deepest gratitude to our shareholders, our customers and our business partners for their continual support which is indispensable for the further development of the Group.

PROFIT AND LOSS ACCOUNT

The Board of Directors of Neolink Cyber Technology (Holding) Limited ("the Company") is pleased to announce that the unaudited combined results for the nine months and three months ended 30th September, 2000 of the Company and its subsidiaries ("the Group") and the

comparative figures of the unaudited combined results for the corresponding nine months and three months periods last year respectively are set out below:

| | Notes | For the three months ended 30th September | | For the nine months ended 30th September | |
|---|-------|--|-----------------------------------|---|-----------------------------------|
| | | 2000 | 1999 | 2000 | 1999 |
| | | Unaudited Combined HK\$'000 | Unaudited Combined HK\$'000 | Unaudited Combined HK\$'000 | Unaudited Combined HK\$'000 |
| Turnover | | | | | |
| — Telemedia | | 980 | 3,020 | 3,178 | 5,669 |
| — Radio trunking | | 316 | 10,136 | 4,341 | 11,350 |
| | 2 | 1,296 | 13,156 | 7,519 | 17,019 |
| Cost of telemedia | | (41) | (991) | (175) | (1,347) |
| Cost of radio trunking | | (233) | (4,723) | (2,330) | (5,387) |
| Gross profit | | 1,022 | 7,442 | 5,014 | 10,285 |
| Other revenues | 2 | 365 | 476 | 816 | 504 |
| Distribution costs | | (841) | (539) | (1,750) | (1,285) |
| Administrative expenses | 3 | (5,029) | (2,020) | (13,114) | (5,069) |
| Profit/(Loss) from operations | | (4,483) | 5,359 | (9,034) | 4,435 |
| Finance costs | 4 | (31) | (31) | (107) | (79) |
| Profit/(Loss) before taxation | | (4,514) | 5,328 | (9,141) | 4,356 |
| Taxation | 5 | (26) | (94) | (70) | (94) |
| Profit/(Loss) after taxation | | (4,540) | 5,234 | (9,211) | 4,262 |
| Minority interests | | 133 | (214) | 351 | (74) |
| Profit/(Loss) attributable to shareholders | | (4,407) | 5,020 | (8,860) | 4,188 |
| Earnings/(Loss) per Share - Basic | 6 | (0.82) cents | 1.05 cents | (1.78) cents | 0.88 cents |

Notes:

1. Basis of preparation

The Company was incorporated in the Cayman Islands on 13th October, 1999 under the Companies Law of the Cayman Islands and the re-organization of the Group prior to the listing on GEM of the Stock Exchange was completed in July 2000, as such the results under the combined basis reflect the combined results of all companies now comprising the Group as if the current Group structure had been in existence throughout the periods covered by this report.

2. Revenue and Turnover

| | For the three months ended 30th September | | For the nine months Ended 30th September | |
|---|--|-----------------------|---|-----------------------|
| | 2000 | 1999 | 2000 | 1999 |
| | Unaudited Combined | Unaudited Combined | Unaudited Combined | Unaudited Combined |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Technical service income | | | | |
| — Telemedia services | 980 | 2,057 | 3,178 | 4,706 |
| — Repair and maintenance for radio trunking systems | — | 133 533 | 133 | — |
| | <u>980</u> | <u>2,190</u> | <u>3,711</u> | <u>4,839</u> |
| Sales of goods | | | | |
| — Telemedia equipment | — | 963 | — | 963 |
| — Radio trunking systems | 316 | 10,003 | 3,808 | 11,217 |
| | <u>316</u> | <u>10,966</u> | <u>3,808</u> | <u>12,180</u> |
| Turnover | 1,296 | 13,156 | 7,519 | 17,019 |
| Interest income | 133 | 7 | 139 | 15 |
| Others | 232 | 469 | 677 | 489 |
| | <u>232</u> | <u>469</u> | <u>677</u> | <u>489</u> |
| Total revenues | <u>1,661</u> | <u>13,632</u> | <u>8,335</u> | <u>17,523</u> |

Turnover represents total invoiced value of services rendered and sales made to customers net of value-added tax and discounts given.

3. Administrative Expenses

Administrative expenses for the nine months and three months periods ended 30th September, 2000 increased as compared to the corresponding periods last year mainly due to increase in research and development expenses.

4. Finance Costs

| | For the three months ended 30th September | | For the nine months Ended 30th September | |
|------------------------|--|-----------------------|---|-----------------------|
| | 2000 | 1999 | 2000 | 1999 |
| | Unaudited Combined | Unaudited Combined | Unaudited Combined | Unaudited Combined |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest on bank loans | 31 | 31 | 107 | 79 |

5. Taxation

The taxation charge comprises:—

| | | For the three months ended 30th September | | For the nine months Ended 30th September | |
|-------------------|------|--|-----------------------|---|-----------------------|
| | | 2000 | 1999 | 2000 | 1999 |
| | | Unaudited Combined | Unaudited Combined | Unaudited Combined | Unaudited Combined |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | | | | | |
| profits tax | (i) | — | — | — | — |
| Overseas taxation | | | | | |
| — Current | (ii) | 26 | 94 | 70 | 94 |

- (i) No provision for Hong Kong profits tax has been made in the accounts as the Group has no estimated assessable profit for the relevant periods.
- (ii) Overseas taxation represented tax charges on the assessable profits of subsidiaries operation in the PRC calculated at the applicable rates.

In accordance with the PRC income tax law, Hangzhou Neolink Communication Equipment Company Limited, a subsidiary of the Company operating in Hangzhou City, Zhejiang Province, is subject to an income tax rate of 33 per cent. on its taxable profit. As the subsidiary is eligible for the High and New Technology Enterprise status as endorsed in the approved document dated 16th December, 1998 issued by Zhejiang Science Technology Committee, the applicable income tax rate is reduced by 15 per cent.. In addition, pursuant to an assessment form dated 11th September, 1996 stamped by Hangzhou State Tax Bureau, Zhejiang Province, the subsidiary is exempted from payment of 3 per cent. local tax until the year 2003. The subsidiary is granted full exemption from PRC income tax for two years from its first profit-making year of operations followed by a 50 per cent. reduction in the state income tax rate for the next three years. The first profit-making year for the aforesaid tax holiday was the financial year ended 31st December, 1994. The 50 per cent. reduced tax rate from the third to the fifth profit-making years, i.e., three financial years ended 31st December, 1998, would be 7.5 per cent.. The applicable income tax rate for the financial years ending 31st December 1999 and 31st December 2000 is 15 per cent.

In accordance with PRC income tax law, Neolink Electronics Technology (Beijing) Company Limited, a subsidiary of the Company operating in Beijing, is subject to an income tax rate of 33 per cent. on its taxable profit. Pursuant to a notice dated 17th November, 1997 issued by Hai Dian State Tax Bureau, the subsidiary is eligible for the High and New Technology Enterprise Status and hence the

applicable income tax rate is reduced by 15 per cent.. The notice also stated that the subsidiary is entitled to full exemption from PRC income tax from the years 1997 to 1999 followed by a 50 per cent. reduction in the state income tax rate for the years 2000 to 2002. In addition, pursuant to the notice, the subsidiary is exemption from payment of 3 per cent. local tax since 1997.

6. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share for the three months and nine months ended 30th September, 2000 is based on the respective unaudited combined loss attributable to shareholders of the Group of approximately HK\$4,407,000 and approximately HK\$8,860,000 (1999: profit of approximately HK\$5,020,000 and profit of approximately HK\$4,188,000) and the weighted average number of 538,086,957 and 496,846,715 (1999: 476,000,000 and 476,000,000) shares outstanding. The 476,000,000 shares outstanding as a result of the Group's reorganisation prior to its initial public offer of its shares in July 2000 are included in the calculation of the weighted average number of shares as if those shares had been in issue since 1st January, 1999.

DIVIDEND

In order to ensure sufficient capital for future business development, the Board of Directors has resolved not to pay a quarterly dividend for the three months ended 30th September, 2000 (1999-Nil).

BUSINESS REVIEW

During the three months ended 30th September, 2000, the Group had satisfactory performance in both the established business in radio trunking systems integration and telemedia services and new business in internet application.

RADIO TRUNKING SYSTEMS AND INTEGRATION

Although the turnover from radio trunking systems integration in the three months ended 30th September, 2000 was relatively low, this cannot reflect all the effort the Group devoted to meet the new requirements of the government use radio trunking systems. The Chinese government has implemented new requirements for their specialized radio trunking systems and enhanced enforcement of their acceptance standard, including full-scale digital encryption technology and anti-electromagnetic interference requirement. The Group has completed all the necessary research and testing and started producing the government use equipment based on the new standard. Delivery of products is expected to be in the last quarter of 2000.

The Group has also started supplying our customers with self-developed mobile telecom terminals. In the past the Group managed to produce only the digital control part of the terminals while the high frequency part was purchased from other suppliers. In the future the Group's self-developed terminals will enhance the competitiveness of our products, particularly in securing the orders from the Chinese government.

The Group has also been selected as the supplier for the radio trunking system of a government-supported export contract to Laos. This is another significant move of the Group to develop overseas market after the appointment of Motorola as the Group's sole distributor of our taxi despatch system in Southeast Asia.

PROVISION OF TELEMEDIA SERVICE

To meet the new development of the telemedia services market, the Group has started providing new telemedia services with more interactive content in Shanghai and Xian. The feedback from the customers is very positive. The Group has also tested the market of card-less IP phone service in Chongqing. The initial result is satisfactory. Above all, the Group has started developing the application solution of multimedia call centre services which will soon become a fast-growing market in China.

PROVISION OF INTERNET SOLUTION

With the drastic changes in the internet ISP and ICP markets, the Group has decided to focus on the development of network-based mobile PDA terminals. The Group's R & D team in Shenzhen has achieved significant results and plans to develop PDA equipment specialized for designated customer groups.

OUTLOOK

In spite of the continued volatile market sentiment on internet and technology business, the Group is proactively reforming the business strategy and well-prepared for the future development of telecom and internet market. We strongly believe that, based on our strength in R & D, the Group will have good performance in the fourth quarter of 2000 and 2001.

The Group will continue to be a major supplier of PRC government use radio trunking systems in the foreseeable future. We also expect significant results from overseas market with the close co-operation with Motorola. The Group will also make use of multimedia call centre services to lead the breakthrough in telemedia services market. In internet market, the Group will focus on PDA-related technology ready for application in consumer market.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2000, the interests of the directors of the Company in the shares of the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance") were as follows:—

| Name | Personal Interests | Family Interests | Corporate Interests | Other Interests |
|---------------------------------|--------------------|------------------|---------------------|-----------------|
| Wong Chit On (<i>Note 1</i>) | — | — | 192,923,808 | — |
| Cai Zuping (<i>Note 1</i>) | — | — | 192,923,808 | — |
| Wan Qiu Sheng (<i>Note 1</i>) | — | — | 10,899,672 | — |
| Zhang Zheng (<i>Note 1</i>) | — | — | 7,266,420 | — |

Note 1: Wong Chit On, Cai Zuping, Wan Qiu Sheng and Zhang Zheng hold their respective attributable interests in the Company through their shareholdings in Infonet Group Co., Ltd. which holds 75% of the total issued share capital of the Company immediately after listing.

SHARE OPTION SCHEME

On 13th July, 2000, the Company adopted the Share Option Scheme. During the period from 13th July, 2000 to 30th September, 2000, no option was granted by the Company under this scheme. As at 30th September, 2000, no option pursuant to the Share Option Scheme was outstanding.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the three months ended 30th September, 2000 was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the Shares of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

So far as the directors are aware, as at 30th September, 2000, the holders of 10% or more of Shares of the Company were as follows:—

| Name | Number of Shares | Percentage of Shareholding (%) |
|---|------------------|--------------------------------|
| Infonet Group Co., Ltd. (<i>Note 1</i>) | 420,000,000 | 75 |

Note 1: Infonet Group Co., Ltd. (“Infonet”) is a company incorporated in the BVI, 97.92 per cent. of the issued capital of which is beneficially owned by the executive directors and senior management staff of the Group as follows:

Executive Directors

- 45.93 per cent. by Wong Chit On;
- 45.93 per cent. by Cai Zuping;
- 2.59 per cent. by Wan Qiu Sheng;
- 1.73 per cent. by Zhang Zheng.

Senior management staff

- 0.86 per cent. by Lu Chunming;
- 0.52 per cent. by Chen Huanming;
- 0.18 per cent. by Mi Lei; and
- 0.18 per cent. by Pun Kam Wai, Peter.

The balance of 2.08 per cent. is owned by Distinct Developments Limited, which is a company incorporated in the BVI owned by two PRC individuals each holding a 50 per cent. shareholding. These two PRC individuals are independent third parties not connected with the directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. They are not involved in the management of the Group.

Infonet, Wong Chit On and Cai Zuping are substantial shareholders of the Company for the purpose of the GEM Listing Rules.

SPONSOR’S INTERESTS

The Sponsor of the Company, DBS Asia Capital Limited, its directors, employees and associates, as at 30th September, 2000, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

DBS Asia Capital Limited has entered into a sponsorship agreement with the Company whereby, for a fee, DBS Asia Capital Limited will act as the Company’s continuing sponsor for the purposes of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountant. The primary duties of the audit committee are the review and supervision of the Company’s financial reporting process and internal control systems. The audit committee comprises two independent non-executive directors, namely Mr. Chan Wai Dune and Mr. Kong Li Szu.

COMPETING INTERESTS

During the three months ended 30th September, 2000, none of the Directors and initial management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with the Company or might compete with the business of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 30th September, 2000.

YEAR 2000 COMPLIANCE

The Board of Directors is pleased to announce that the Company's computer systems were proved Year 2000 compliant safely. The Board of Directors believes that the Year 2000 computer issue will have no material impact on the operations of the Group.

By Order of the Board

Wong Chit on

Chairman

Hong Kong, 10th November, 2000