



Neolink Cyber Technology (Holding) Limited

(Incorporated in the Cayman Islands with limited liability)

2001

Interim Report

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

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The Directors collectively and individually accept full responsibility for this announcement 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 announcement 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 announcement 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 interim results of Neolink Cyber Technology (Holding) Limited (the "Company") and its subsidiaries (together, the "Group") for the six months ended 30 June 2001.

Our total turnover was approximately HK\$22,686,000 for the six months ended 30 June 2001 which is more than three times higher than the same period last year. Turnover for the three months ended 30 June 2001 alone was approximately HK\$12,128,000 which represents growth of 15% from the first quarter of 2001. Profit attributable to shareholders for the six months ended 30 June 2001 was approximately HK\$60,000 which is a substantial improvement against the loss of more than HK\$4 million for the same period a year ago.

The adjustment of the business strategies and structure of the Group in response to market changes, particularly with regard to the Internet, has achieved positive results. The radio trunking business delivered good sales performance and profit contribution in the first half of 2001. The Company has also signed sales contract to continue the supply of government specialized radio trunking systems in 2001. The new business in telecom products, which has replaced the Internet business in the Group, has contributed almost HK\$9 million in turnover in the six months ended 30 June 2001 with gross profit margin of over 50%. The installation of China Unicom's CDMA network in the second half of 2001 and 2002 will provide an important business opportunity for the Group through the sales of repeaters to China Unicom by the Company's subsidiary in Shenzhen.

We believe that the strategic adjustments made in response to market changes have placed the Group on track to stable business growth.

On behalf of the Board of the Directors, I wish to express our sincere appreciation to all the employees of the Group for their commitment and contribution which is a critical factor for the continued business success of the Company in the future.

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

PROFIT AND LOSS ACCOUNT

The Board of Directors of the Company is pleased to announce that the unaudited consolidated results of the Group for the three months and six months ended 30 June 2001 and the comparative figures of the unaudited combined results for the corresponding periods in 2000 are set out below:

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2001 Unaudited HK\$'000	2000 Unaudited HK\$'000	2001 Unaudited HK\$'000	2000 Unaudited HK\$'000
Turnover					
– Telemedia		877	1,372	1,712	2,198
– Radio trunking		6,100	1,484	12,090	4,024
– Telecom products		5,151	0	8,884	0
	2	12,128	2,856	22,686	6,222
Cost of telemedia		(640)	(92)	(905)	(134)
Cost of radio trunking		(1,748)	(901)	(3,544)	(2,097)
Cost of telecom products		(2,443)	0	(4,332)	0
Gross profit		7,297	1,863	13,905	3,991
Other revenues	2	214	64	431	452
Distribution costs		(1,298)	(458)	(2,308)	(909)
Administrative expenses		(5,743)	(4,091)	(10,320)	(8,085)
Profit/(Loss) from operations		470	(2,622)	1,708	(4,551)
Finance costs	3	(66)	(50)	(112)	(76)
Profit/(Loss) before taxation		404	(2,672)	1,596	(4,627)
Taxation	4	(47)	(27)	(47)	(44)
Profit/(Loss) after taxation		357	(2,699)	1,549	(4,671)
Minority interests		(812)	115	(1,489)	218
Profit/(Loss) attributable to shareholders		(455)	(2,584)	60	(4,453)
Earnings/(Loss) per Share					
– Basic	5	<u>(0.08) cent</u>	<u>(0.54) cent</u>	<u>0.01 cent</u>	<u>(0.94) cent</u>

Notes:

1. Basis of preparation

The Company was incorporated in the Cayman Islands on 13 October 1999 under the Companies Law of the Cayman Islands and the reorganization of the Group prior to the listing on GEM of the Stock Exchange was completed in July 2000, as such the results reflect the results of all companies now comprising the Group as if the current Group structure had been in existence throughout the periods covered by this announcement and, where applicable, from the respective date of the acquisitions by the Group, whichever is later.

2. Revenue and turnover

	For the three months ended 30 June		For the six months ended 30 June	
	2001	2000	2001	2000
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Technical service income				
- Telemedia services	877	1,372	1,712	2,198
- Repair and maintenance for radio trunking systems	309	0	957	533
	<u>1,186</u>	<u>1,372</u>	<u>2,669</u>	<u>2,731</u>
Sales of goods				
- Telemedia equipment	0	0	0	0
- Radio trunking systems	5,791	1,484	11,133	3,491
- Telecom products	5,151	0	8,884	0
	<u>10,942</u>	<u>1,484</u>	<u>20,017</u>	<u>3,491</u>
Turnover	12,128	2,856	22,686	6,222
Interest income	109	1	138	6
Others	105	63	293	446
	<u>12,342</u>	<u>2,920</u>	<u>23,117</u>	<u>6,674</u>

3. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2001	2000	2001	2000
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Interest on bank loans	66	50	112	76

4. Taxation

The taxation charge comprises:-

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2001	2000	2001	2000
		Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>
Hong Kong profits tax	(i)	0	0	0	0
Overseas taxation	(ii)	47	27	47	44

- (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 represents tax charges on the assessable profits of certain subsidiaries operating in the People's Republic of China (the "PRC") calculated at the applicable rates.

5. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share for the three months and six months ended 30 June 2001 is based on the respective unaudited consolidated loss of approximately HK\$455,000 and profit of approximately HK\$60,000 attributable to shareholders of the Group (2000: loss of HK\$2,584,000 and loss of HK\$4,453,000 respectively) and the weighted average number of 578,712,088 and 571,779,006 (2000: 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 1 January 2000.

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 30 June 2001 (2000: Nil).

BUSINESS REVIEW

RADIO TRUNKING SYSTEMS AND INTEGRATION

The radio trunking business recorded a turnover of HK\$12 million in the six months ended 30 June 2001. Business included Chinese government specialized use systems, radio trunking systems for the Laos government and taxi despatch/communication systems. Sales to all major customers are expected to continue in the second half of 2001.

Since the wireless 450 megahertz band resources in China are quite heavily used, which may affect the use of the Company's radio trunking systems in some of the major cities in China, the Company has successfully launched new 800 megahertz based systems and is actively looking for business alliance opportunities with service providers.

The Group will also launch a metropolitan vehicle information service system which is based on GSM network rather than wireless radio trunking platform. Target users include taxis, public transportation vehicles and private vehicles. R&D on dual mode (trunking plus GSM) terminals with global positioning system (GPS) feature is in progress.

PROVISION OF TELECOM BASE STATION EQUIPMENT

China Unicom has announced the installation of their new mobile public CDMA network which will provide excellent business opportunities for the Group. Shenzhen Max Com Industrial Development Company Limited ("Shenzhen Max Com"), a newly acquired subsidiary of the Group, has good experience in developing and manufacturing GSM repeaters and has been selling the products to China Mobile and China Unicom since 2000. Based on their experience of GSM repeaters, Shenzhen Max Com has developed a testing CDMA repeater which has successfully passed their acceptance test of the State Radio Commission, a prerequisite for being selected as an equipment supplier for China Unicom. To meet the further technical requirements and system installation schedule of China Unicom's CDMA network, Shenzhen Max Com is now negotiating with an experienced CDMA equipment manufacturer in Korea with regard to a possible business cooperation.

WIRELESS PERSONAL DIGITAL ASSISTANT ("PDA")

Target customers for the Group's PDAs are students in China. Product features include general PDA functions, games, paging and wireless internet data downloading. A first batch of 100 PDAs has been sold to test market. The development of another model with more advanced features is expected to be completed and ready for production later this year.

OUTLOOK

China will almost certainly enter the World Trade Organisation ("WTO") by the end of 2001. As promised by the Chinese government, the telecom market will then be opened up to foreign companies and value-added telecom services will be the first market sector with an open door policy. The Group's related companies in China hold national ISP and telemedia service licenses and own two national access codes (95168 and 95169). The Group is able to acquire

shareholdings in these related companies, based on the exclusive investment option agreements entered into by the parties concerned before the listing of the Company, once allowed by Chinese law. The Group expects the opening of the telecom market to bring both challenges and opportunities to market players.

Beijing will host the Olympic Games in 2008 and the Chinese government has promised to make heavy investment in infrastructure. Taxis, being one of the most important forms of public transportation, will grow substantially and move forward to use more advanced vehicle management and telecommunication systems. Having established a leading status in the vehicle telecom system market in China, the Group will have competitive advantages in obtaining orders for network installation and system expansion.

These two market factors, together with the installation of China Unicom's CDMA network, will bring positive development opportunities for the Group. The Board of Directors expect the Group to enjoy satisfactory growth in the forthcoming quarters.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 18 July 2000 ("the Prospectus") for the period ended 30 June 2001

Actual business progress

Provision of telemedia related technical services

Research and development

- | | |
|---|---|
| <ul style="list-style-type: none"> • Call centre system.
 • Connection of telemedia system and call centre system to the Internet. | <ul style="list-style-type: none"> • In progress, emphasis being placed on integration and application of call centre system.
 • R & D on connection with manual assistance completed. |
|---|---|

Sales

- | | |
|--|--|
| <ul style="list-style-type: none"> • Technical services to new telemedia establishments of Haoyuan Yingte in two cities in the PRC. | <ul style="list-style-type: none"> • Haoyuan Yingte has taken a more conservative business development approach in response to the latest market changes. No new city has been added to operations. |
|--|--|

- Regular technical services and telemedia programmes to existing telemedia establishments of Haoyuan Yingte.
- In progress as planned.
- Sale of first call centre system.
- R & D on call centre system currently still in progress. Product not yet ready for sale.

Radio trunking systems integration

Research and development

- Commence development of 800 megahertz integrated global positioning system and data communication vehicle terminal.
 - In progress.
 - Commence development of second generation specialised government use digital encryption mobile terminal.
 - Completed.
 - Commence development of digital trunking system.
 - In progress with discussions on technical solutions.
 - Connection of PDAs to the Internet through specialised radio networks.
 - Connection of radio trunking systems to the Internet.
- } Pending due to the volatile development of Internet market.

Sales

- ODIN systems to overseas markets.
- Sales of radio trunking systems to Laos government.
- ODIN system expansions in the PRC.
- Sales to customer in Wenzhou, the PRC.
- ODIN systems in the PRC.
- Sales to customers in Beijing, Shanghai and Foshan.
- Specialised government systems.
- Sales contract for 2001 signed.

Provision of Internet solutions and related technical services

Research and development

- Continue to improve on the technology and services of Internet login and information content.
- Extend Multi-int Internet application system to connect fixed-line telephones to the Internet.

As mentioned in the 2000 annual report, in response to the latest internet market developments, the Group has suspended development in ICP and kept investment in ISP to a minimal level.

Sales

- Technical services to new ISP establishments of Haoyuan Sky Internet in four cities in the PRC.
- Internet information content to support the ICP business of Haoyuan Sky Internet.
- Multi-int Internet application system.

No sales were achieved due to changes in business strategy as mentioned above.

DIRECTORS' SHAREHOLDING INTERESTS IN THE COMPANY

As at 30 June 2001, 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	Type of interest	Number of issued Shares held
Cai Zuping (<i>Note 1</i>)	Corporate	412,000,000
Wong Chit On (<i>Note 1</i>)	Corporate	412,000,000

Note 1: Cai Zuping and Wong Chit On hold their respective deemed interests in the Company through their shareholdings in Infonet Group Co., Ltd. ("Infonet") which holds 71.18% of the total issued share capital of the Company. Wan Qiu Sheng and Zhang Zheng, executive directors of the Company, also have interests in the Company through their respective shareholdings of 2.59% and 1.73% in Infonet.

SHARE OPTION SCHEME

On 13 July 2000, a share option scheme was approved by a written resolution of the then sole shareholder of the Company under which the executive directors may, at their discretion, grant options to themselves and the full-time employees of the Group entitling them to subscribe for shares representing up to a maximum of 10 per cent. of the shares in issue from time to time (excluding shares which have been allotted and issued pursuant to the share option scheme).

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

Name	Position	Number of Shares under option	Exercisable period	Exercise price per Share
Zhang Zheng	Executive Director	10,000,000	5 January 2004 to 4 January 2008	HK\$0.72
Lu Chunming	Senior management staff	10,000,000	5 January 2004 to 4 January 2008	HK\$0.72
Chen Huanming	Senior management staff	10,000,000	5 January 2004 to 4 January 2008	HK\$0.72

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except the share options disclosed above, at no time during the three months ended 31 March 2001 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 OF THE COMPANY

As at 30 June 2001, the following party was interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 16(1) of the Securities (Disclosure of Interests) Ordinance.

Name	Number of issued Shares	Percentage of total issued Shares
Infonet Group Co., Ltd. (<i>Note 1</i>)	412,000,000	71.18

Note 1: Infonet Group Co., Ltd. is a company incorporated in the BVI, 97.92% 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% by Cai Zuping;
- 2.59% by Wan Qiu Sheng;
- 45.93% by Wong Chit On; and
- 1.73% by Zhang Zheng.

Senior management staff

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

The balance of 2.08% is owned by Distinct Developments Limited, which is a company incorporated in the BVI owned by two PRC individuals each holding a 50% 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, Cai Zuping and Wong Chit On are substantial shareholders of the Company for the purpose of the GEM Listing Rules.

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under section 16(1) of the Securities (Disclosure of Interests) Ordinance.

SPONSOR'S INTERESTS

Pursuant to the agreement dated 17 July 2000 and entered into between the Company and DBS Asia Capital Limited ("DBS"), DBS will receive a fee for acting as the Company's retained sponsor for the period of two years commencing 25 July 2000. As at 30 June 2001, none of DBS, its directors, employees and their associates had 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.

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 comprised two independent non-executive directors of the Company, namely Mr. Wong Ping Wong and Mr. Pan Boxin.

COMPETING INTERESTS

During the three months ended 30 June 2001, 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 30 June 2001.

By Order of the Board
Cai Zuping
Chairman

Hong Kong, 1 August 2001