



# 3rd Quarterly Report

# 2004

**Neolink Cyber Technology (Holding) Limited**  
(Incorporated in the Cayman Islands with limited liability)

## **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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*This report, for which the directors of NEOLINK CYBER TECHNOLOGY (HOLDING) LIMITED (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.*

# THIRD QUARTERLY RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2004, together with the unaudited comparative figures for the corresponding period in 2003, are as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the three months and nine months ended 30 September 2004*

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	<b>5,587</b>	10,651	<b>20,982</b>	30,227
Cost of sales and services		<b>(2,399)</b>	(2,359)	<b>(8,087)</b>	(11,198)
Gross profit		<b>3,188</b>	8,292	<b>12,895</b>	19,029
Other revenues	2	<b>292</b>	771	<b>1,359</b>	1,481
Distribution costs		<b>(767)</b>	(1,139)	<b>(2,142)</b>	(1,749)
Administrative expenses		<b>(4,393)</b>	(4,945)	<b>(12,090)</b>	(11,333)
(Loss)/profit from operations		<b>(1,680)</b>	2,979	<b>22</b>	7,428
Finance costs		<b>(36)</b>	(135)	<b>(165)</b>	(214)
(Loss)/profit before taxation		<b>(1,716)</b>	2,844	<b>(143)</b>	7,214
Taxation	3	<b>(26)</b>	(110)	<b>(350)</b>	(178)
(Loss)/profit after taxation		<b>(1,742)</b>	2,734	<b>(493)</b>	7,036
Minority interests		<b>(32)</b>	28	<b>(42)</b>	(635)
(Loss)/profit attributable to shareholders		<b>(1,774)</b>	2,762	<b>(535)</b>	6,401
(Loss)/earnings per share (HK cents)					
– Basic	4	<b>(0.31)</b>	0.49	<b>(0.09)</b>	1.13
(Loss)/earning per share (HK cents)					
– Diluted	4	<b>N/A</b>	N/A	<b>(0.09)</b>	N/A

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2004

	Unaudited				Enterprise				Total
	Share capital	Share premium	Merger reserve	Revaluation reserve	General reserve	expansion fund	Exchange reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Nine months ended</b>									
<b>30 September 2004</b>									
At 1 January 2004	56,400	26,993	(46,815)	1,783	5,922	50	(56)	(14,461)	29,816
Release upon disposal of land and buildings under long leases outside Hong Kong	-	-	-	(315)	-	-	-	-	(315)
Exchange differences	-	-	-	-	-	-	(11)	-	(11)
Loss attributable to shareholders	-	-	-	-	-	-	-	(535)	(535)
At 30 September 2004	56,400	26,993	(46,815)	1,468	5,922	50	(67)	(14,996)	28,955
<b>Nine months ended</b>									
<b>30 September 2003</b>									
At 1 January 2003	56,400	26,993	(46,815)	307	3,881	50	(66)	(21,302)	19,448
Exchange differences	-	-	-	-	-	-	2	-	2
Profit attributable to shareholders	-	-	-	-	-	-	-	6,401	6,401
At 30 September 2003	56,400	26,993	(46,815)	307	3,881	50	(64)	(14,901)	25,851

Notes:

## 1. Basis of preparation

The unaudited consolidated accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The accounts have been prepared under the historical cost convention as modified by the revaluation of land and buildings.

The accounting policies and methods of computation adopted in the preparation of these unaudited consolidated accounts are consistent with those set out in the annual financial statements for the year ended 31 December 2003.

## 2. Turnover and revenues

The Group is principally engaged in radio trunking systems integration and provision of telemedia-related services. Revenues recognized are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover				
Technical service income				
Telemedia-related services	<b>1,049</b>	2,621	<b>3,344</b>	4,709
Sales of goods				
Radio trunking systems integration	<b>4,538</b>	8,030	<b>17,638</b>	25,518
	<b>5,587</b>	10,651	<b>20,982</b>	30,227
Other revenues				
Interest income	<b>4</b>	3	<b>107</b>	44
Others	<b>288</b>	768	<b>1,252</b>	1,437
	<b>292</b>	771	<b>1,359</b>	1,481
Total revenues	<b>5,879</b>	11,422	<b>22,341</b>	31,708

### 3. Taxation

The amount of taxation charged to the consolidated income statement represents:

	Notes	Three months ended 30 September 2004		Nine months ended 30 September 2004	
		2003	2004	2003	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	(i)	0	0	0	0
Overseas taxation	(ii)	26	110	350	178
		<b>26</b>	<b>110</b>	<b>350</b>	<b>178</b>

Notes:

- (i) No provision for Hong Kong profits tax has been made as the Group has no assessable profits for the relevant periods.
- (ii) Overseas taxation represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.
- (iii) No recognition of the potential deferred tax assets relating to tax losses has been made as the recoverability of this potential deferred tax assets is uncertain.
- (iv) No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

#### 4. (Loss)/earnings per share

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

	Three months ended 30 September		Nine months ended 30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

#### (Loss)/earnings

(Loss)/earnings for the purposes of basic and diluted earnings per share

	<b>(1,774)</b>	2,762	<b>(535)</b>	6,401
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#### Number of shares

Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share

**564,000**      564,000      **564,000**      564,000

Effect of dilutive share options

–      –      **399**      –

Weight average number of ordinary shares for the purposes of diluted (loss)/earnings per share

**564,000**      564,000      **564,399**      564,000

#### 5. Dividend

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2004 (2003: Nil).

## FINANCIAL REVIEW

The unaudited consolidated turnover of the Group for the nine months ended 30 September 2004 was approximately HK\$20,982,000, representing an decrease of 31% as compared with the same period in 2003. The unaudited net loss attributable to shareholders for the nine months ended 30 September 2004 amounted to approximately HK\$535,000, whereas, the Group recorded a profit of approximately HK\$6,401,000 for the corresponding period in 2003. The net loss of the Group was primarily attributable to decrease in turnover of radio trunking systems integration business. Radio trunking systems integration contributed a turnover of approximately HK\$17,638,000, which is approximately 84% of the total turnover of the Group. The turnover from radio trunking systems integration was dropped by 31% as compared with the previous year. The decrease in turnover of the radio trunking systems integration was mainly attributable to the cyclical fluctuation of sales which was directly affected by the delivery schedule of radio trunking systems integration to the customers.

Telemedia-related services recorded a turnover of approximately HK\$3,344,000, which is 29% decrease as compared with last year. There was a high competition in the telemedia services in the People's Republic of China in terms of marketing, quality of services and information content, therefore, this competition leads to decrease in turnover of the Telemedia-related services.



## BUSINESS REVIEW AND OUTLOOK

### Radio Trunking Systems Integration

For the nine months ended 30 September 2004, orders received for the Group's specialized radio communication business amounted to approximately RMB\$31,920,164 in value, of which approximately RMB\$6,880,164 was received in the third quarter. The outstanding orders of approximately RMB\$8,600,000 entered into this year will be completed in the fourth quarter of the year. These results indicate that the radio system communication business remains in stable development. The management believes that there is huge market potential for specialized radio communication business in China and has been dedicated to develop a widely diversified customer base, covering sectors such as public security, border guard, logistics, city emergency co-action, etc.

For the three months and nine months ended 30 September 2004, turnovers for the Group's radio trunking systems integration business were approximately 4,538,000 and 17,638,000, representing decreases of 43% and 31% as compared to the corresponding periods of the previous year respectively.

In the third quarter of 2004, the Group established a wholly foreign-invested enterprise, namely Neolink Communications Technology (Hangzhou) Limited, and obtained the approval of the Foreign Trade and Economic Bureau of Hangzhou High-Tech Development Zone. The Group was transferred the land of 11,452 sq. m. at a preferential price from the National High-Tech Development Zone in Hangzhou with each square meter priced at RMB\$240, which was much lower than the market price. The Group plans to build an office building as a base of research, development and production for the communication department.

In the third quarter of the year, the Group and Nanjing PLA University of Science and Engineering (南京解放軍理工大學) established a united laboratory focusing on the research and development of digital radio trunking system. It is believed that the cooperation may enable the Group to use the intelligent resources of high education institutions and to enhance the technological level of the Group.

## **BUSINESS REVIEW AND OUTLOOK *(continued)***

### **Provision of value-added Telemedia-related Technical Services**

For the three and nine months ended 30 September 2004, the value-added telemedia-related technical services of the Group rendered through Haoyuan Yingte, its long-term cooperation partner, recorded turnovers of 1,049,000 and 3,344,000, representing decreases of 60% and 29% as compared to the corresponding periods of previous year respectively.

As of September 2004, the Group had already successfully assisted Haoyuan Yingte in applying for value-added services qualification and special service numbers of China Mobile and China Unicom. In addition to the fact that Haoyuan Yingte has already held the license of value-added service of China Telecom, Haoyuan Yingte became one of the operators holding the most complete set of licenses of telemedia value-added services in China. Currently, the Group is assisting Haoyuan Yingte in the improvement of service quality, enrichment of service content and innovation of service pattern so as to bring into full play of the business value of value-added telemedia service license, and particularly to gain a larger share of China's huge mobile value-added telecommunication market.

### **Development of vehicle call center**

In this quarter, the Group's information vehicle project continued to make progress. The terminal equipment for the deployment of taxis developed by the Group will be showcased on the product conference to be held in Shanghai recently. The three terminal products targeting different levels of customers, namely, "Vedia 318", "Vedia 518" and "Vedia 718", have been developed successfully and agent producers are being selected.

The call center for information vehicle project established in Beijing by the Group has successfully passed the operation test and is now in the process of improvement. The time of commencing pilot business operation is expected to be the fourth quarter of the year or early next year. Now more technical and marketing personnel of the project are being recruited in order to ensure the technical reliance of the project after the commencement of business operation and the proper business model accepted by consumers.

The Group is negotiating with several international investment institutions for introducing to investors the Group's information vehicle service project and at the same time, to further improve the project based on the suggestions from investors.

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

As at 30 September 2004, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

### Long positions in the ordinary shares of HK\$0.10 each of the Company

Name	Type of interest	Number of shares	Approximate percentage of issued share capital
Mr. Cai Zuping ( <i>Note 1</i> )	Corporate	376,585,296	66.77%
Mr. Zhang Zheng ( <i>Note 2</i> )	Corporate	376,585,296	66.77%

Notes:

1. Mr. Cai Zuping, an executive director and the chairman of the Company, holds his deemed interest in the Company through his shareholding of 23.82% in Infonet Group Co., Ltd. ("Infonet") which holds 66.77% of the total issued share capital of the Company.
2. Mr. Zhang Zheng, an executive director of the Company, has interest in the Company through his shareholding of 5.86% in Infonet.

Save as disclosed above, as at 30 September 2004, none of the directors and chief executives of the Company had registered an interest or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 30 September 2004, the following persons (other than the director and the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Name	Type of interest	Number of shares	Approximate percentage of issued share capital
Infonet (Note 1)	Corporate	376,585,296	66.77%
Harbour Smart Development Limited ("Harbour Smart") (Note 2)	Corporate	376,585,296	66.77%
Mr. Wang Yuan (Note 3)	Corporate	376,585,296	66.77%
Mr. He Yuefeng (Note 3)	Corporate	376,585,296	66.77%

Notes:

1. Infonet is a company incorporated in the British Virgin Islands which is beneficially owned, among others, as to 26% by Harbour Smart, as to 23.82% by Mr. Cai Zuping, as to 19.93% by Mr. Wang Yuan and as to 13.04% by Mr. He Yuefeng.
2. Harbour Smart, a company incorporated in Hong Kong, has interest in the Company through its shareholding of 26% in Infonet. Mr. Li Chaobin, the executive director of the Company, are the shareholder of the Harbour Smart and hold the shares of Harbour Smart on trust for Hubei Qing Jiang Hydro-electric Development Company Limited, a state-owned corporation in the PRC.
3. Mr. Wang Yuan and Mr. He Yuefeng are independent third parties not connected with the directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. They are not involved in the management of the Company and its subsidiaries. Mr. Wang Yuan and Mr. He Yuefeng have interest in the Company through their shareholdings of 19.93% and 13.04% in Infonet respectively.

Save as disclosed above, as at 30 September 2004, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## **COMPETING INTERESTS**

The directors of the Company are not aware of, as at 30 September 2004, any business or interest of each directors of the Company, management shareholders and the respective associates (as defined in the GEM Listing Rules) of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## **AUDIT COMMITTEE**

In compliance with Rule 5.28 to 5.30 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which describe the authority and duties.

The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control systems. The audit committee comprises three independent non-executive directors of the Company, namely Mr. Wong Ping Wong, Mr. Pan Boxin and Mr. Sik Siu Kwan. The Group's unaudited results for the nine months ended 30 September 2004 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules during the nine months ended 30 September 2004.

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

During the nine months ended 30 September 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board  
**Neolink Cyber Technology (Holding) Limited**  
**Cai Zuping**  
*Chairman*

Hong Kong, 12 November 2004

As at the date hereof,

Executive Director:

Mr. Cai Zuping  
Mr. Li Chaobin  
Mr. Zhang Zheng  
Mr. Su Hongjin

Independent non-executive Directors:

Mr. Wong Ping Wong  
Mr. Pan Boxin  
Mr. Sik Siu Kwan

Non-executive Directors:

Mr. Chen Kang