NEOLINK
优能科技

Annual Report 2004

Neolink Cyber Technology (Holding) Limited

(Incorporate 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.

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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.

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 annual 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 annual 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 annual report misleading; and (iii) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Profile

DIRECTORS

Executive Directors

Mr. Cai Zuping *(Chairman)*
Mr. Li Chaobin
Mr. Zhang Zheng
Mr. Su Hongjin

Non-executive Director

Mr. Chen Kang

Independent Non-executive Directors

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

AUTHORISED REPRESENTATIVES

Mr. Cai Zuping
Mr. Ang Wing Fung *CPA (Aust), AHKSA*

AUDIT COMMITTEE MEMBERS

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

COMPLIANCE OFFICER

Mr. Zhang Zheng

COMPANY SECRETARY

Mr. Ang Wing Fung *CPA (Aust), AHKSA*

QUALIFIED ACCOUNTANT

Mr. Ang Wing Fung *CPA (Aust), AHKSA*

AUDITORS

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

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank, Ltd.

LEGAL ADVISORS

On Hong Kong Law:
Chiu, Szeto & Cheng Solicitors

On Cayman Islands Law:
Conyers Dill & Pearman, Cayman

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

Unit D, 14/F
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Cayman Islands
Butterfield Bank (Cayman) Limited
Butterfield House
Port Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong
Abacus Share Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Stock Code
8116

Website of the Company
www.neolinkcyber.com

I am pleased to announce the audited annual results of the Company and the Group for the year ended 31 December 2004 on behalf of the Board of Directors.

The total turnover of the Group for the year ended 31 December 2004 was HK$29 million, representing a decrease of 41% as compared with HK$50 million for the preceding year. The decrease in the results was primarily attributable to decrease in orders received for specialized radio communication business and increase in the input in the research and development project.

The loss attributable to shareholders for the year ended 31 December 2004 was HK$2.7 million with loss per share amounting to HK$0.4 cents. The results showed that the development of existing principal business of the Group was by no means smooth as the Group recorded a loss again following the first profitable year in 2003 after our listing and the integrated wireless system business and value-added telecommunication business both dropped by different extents. In view of the growth of existing business and increasingly competitive market competition, the Group will keep on making cautious decision and reinforcing and developing existing business. In the meantime, the Group will capitalize on existing resources to substantially develop automobile information service project so as to create new sources of profits and to materialize the Group's long-term sustainable development.

In 2004, the Group achieved a significant progress from the information vehicle project which had been incubated for three years. Neolink Broadway Intelligent Transportation Information Technology (Shanghai) Limited (優能博聞智能交通信息技術(上海)有限公司) (Neolink Broadway), a subsidiary of the Company with a company of the East China Normal University in Shanghai, which involves in the research on intelligent transportation, to develop automobile terminal products. As of this moment, the research and development in various aspects have proved smooth and the products developed were immediately recognized by the market after their introduction. The automobile information service call centre established in Beijing mainly for the provision of service also made substantial progress in 2004. In order to assure the successful introduction of the project into the market, the Group decided that 2005 is the right time to put the project in full swing and to perform substantial work in technical upgrade, market adjustment and research and improvement of service manner. On 27 December 2004, the Group succeeded in financing with the project as the carrying entity. By recapitalizing the shareholding company which owns the project through restructuring 40% of its equity interests in exchange for an investment of HK$23,000,000, the Group thoroughly solved the problem of funding the development of the project.

A change also took place in the senior management of the Group during the year. Mr. Wang Dingguo resigned as the Chairman and Executive Director of the Company. Mr. Cai Zuping, Executive Director, was then appointed the Chairman of the Company, and Mr. Li Chaobin was appointed to be the Vice Chairman and Executive Director of the Company.

After several years of exploring and practices, the Board of Directors keeps on improving and revising appropriate development strategies for the Group. We believe that, with the joint efforts of all staff members, the Group will drive the business forward in the days to come and hence generate even greater returns for the shareholders.

On behalf of the Board of Directors and the management, I would like to express my heartfelt thanks to all levels of the staff for their efforts and contributions in 2004 and my deep gratitude to our clients, business partners and shareholders for their utmost support.

Cai Zuping
Chairman

BUSINESS REVIEW AND OUTLOOK

Radio trunking systems integration

For the year ended 31 December 2004, the turnovers from the business of radio trunking systems integration was HK$25 million, representing a decrease of 32% as compared with the preceding year. The decrease in turnover in this aspect was mainly attributable to a drop in the orders from the government procurement bodies on their consideration for technical upgrade whilst the orders adopting new technology were not yet determined.

During this year, the Group dedicated to develop a diversified customers' base covering police, border security, logistics and municipal emergency co-action units while receiving basic generic orders from the traditional government departments. The development of these new markets was expected to generate result in 2005, but the major sales market of the Group currently still relies on the demand from the customers of the civil sector mainly formed by traditional government departments and car-hiring outfits.

During the year of 2004, the Group completed the delivery for the capacity expansion contract on 1,650 sets of terminals and systems made with the Shanghai Johnson Taxi Company（上海強生出租車公司）and the deliveries for several deployment and terminal sales contracts with taxi companies in major cities of the PRC. The Group continued to maintain good relations with traditional government departments so the Group was able to maintain stable customers, base and revenue.

In the first quarter of the 2005, Neolink Communications Technology (Hangzhou) Limited, a wholly-owned subsidiary of the Company in Hangzhou obtained the approval of the Foreign Trade and Economic Bureau of Hangzhou High-Tech Development Zone. The Group was allotted a piece of land with an area of 11,452 sq.m. at a preferential price of RMB240/sq.m. offered by the Hangzhou National High-Tech Development Zone, which was much lower than the prevailing market price. The Group plans to build an office building as a base for research, development and production of the communications business department. The construction of the factory compound is divided into two phases with the first phase of construction planned to commence in 2005.

Development of digital trunking system

As China's technical standard of digital trunking system was not finalized within the year of 2004, the Group actively pursued the follow-up strategy and plans to complete the development of the software and hardware of the system on the existing basis and put them into the market according to the time when the standard finalized.

Provision of telemedia-related and other value-added telecommunication related technical services

The Group continued to cooperate with Haoyuan Yingte, its long-term partner, in the provision of value-added telecommunication related services in various large cities of China. In order to capitalize on the resources of Haoyuan Yingte's licenses, the Group assisted Haoyuan Yingte in the establishment of a new branch company in Shenzhen by virtue of cooperation and plans to expand such mode of operations to other large and medium-sized cities.

During the year of 2004, the Group successfully assisted Haoyuan Yingte in applying for value-added services accreditation and obtained a special service number 10590 as well as a short message service (SMS) number 9591 from China Unicom. In addition to the fact that Haoyuan Yingte has already held the license of value-added service of China Unicom, Haoyuan Yingte became the service provider which has the most complete set of value-added service qualifications for national fixed line and mobile telephone service. It is believed that in the vast value-added telecommunication related technical service market of the PRC, the above-mentioned licenses will prove to be invaluable assets for generating more business opportunities for the Group.

Development of vehicle call center ("Carbase Project")

Based on the overall planning, Beijing was selected as the first location for the development of Carbase Project so as to set up a business operations mode mainly consisting of a vehicle call centre providing services of all aspects. After the development process in 2004, the call centre established in Beijing was already well-equipped for operations. The Group plans to launch this project on the market in 2005 by capitalizing the opportunities that the Beijing municipal government had decided to exert great efforts to solve its serious traffic problem of the city which is preparing for the 2008 Olympic Games.

On 27 December 2004, the Group made an acquisition agreement with Pem-America Inc. after making contacts with several investment institutions, for which Pem-America. Inc. acquired 40% equity interests of China Gocom Internet (BVI) Limited, the controlling company of the call centre, at the price of HK$23 million. The success in financing for the project not only increased confidence of the Group on the successful operation of the project, but also generated the funds for upbeating the steps of the Group to enter the market and to expand the customers base.

Neolink Broadway Intelligent Transportation Information Technology (Shanghai) Limited, the subsidiary established by the Group in Shanghai, has already successfully developed three generation of terminal products targeting for different levels of customers, namely, "Vedia 318", "Vedia 518" and "Vedia 718". These terminal products have already been recognized by several automobile manufacturers, which are consulting with the Group on the agreement of installing these products in the automobiles subsidiary during the manufacturing process before the automobiles leave the production plants.

The taxi anti-robbery and deployment management system, DimmiT300, and the corresponding terminal, developed by Neolink Broadway Intelligent Transportation Information Technology (Shanghai) Limited based on cellular network, had immediate and excellent repercussion after it made its market debut. This system was targeted for small and medium sized taxi operating companies by meeting their business requirements of improving deployment efficiency, without incurring substantial costs. As the system combined part of vehicle-carrying terminal products and software modules and performed the functions of anti-robbery videotaping, security monitoring, location tracking, deployment of voice synthesis and corporate operation management, it enabled small and medium sized taxi operating companies to improve service quality, strengthen corporate management, protect the safety of drivers and create good business image without large-scale input. Since the market positioning of this product is optimal and accurate, the Group has obtained the orders for 800 sets of the device from cities like Chengdu, Xian, etc. This system is expected to become an important source of profits for the Group in 2005.

FINANCIAL REVIEW

Financial performance

The Group's consolidated turnover amounted to approximately HK$29.3 million for the year ended 31 December 2004, representing 41% decrease as compared to last year. Turnover of radio trunking systems integration contributed was approximately HK$24.9 million which is approximately 85% of the total turnover of the Group. Radio trunking systems integration itself decreased by almost 32% as compared to the previous year. Provision of telemedia-related and other value-added telecommunication related technical services recorded a turnover of approximately HK$4.4 million which decreased by 30% as compared to last year. Other turnover represents a one-off transaction for the sale of monitor systems with a gross profit margin of 3% in 2003 and no other turnover was accounted during the year.

The gross profit for the year under review was approximately HK$18 million, representing a decrease of 34% from last year. The gross profit margin of the Group increased to 62% (2003: 55%).

HK$2.3 million of other revenue mainly represents the refund of PRC value-added tax and decreased in other revenue was 19% as compared to last year.

Distribution costs for the year ended 31 December 2004 decreased to approximately HK$3.6 million from HK$4.1 million last year. The decrease in distribution cost was mainly due to decrease in turnover of the Group, which leads to decrease in marketing expenses and decrease of sales commission during the year. Administrative expenses increased by 11% to HK$17 million in 2004 (2003: HK$16 million), primarily as a result of additional staff cost for research and development activities for Carbase Project.

The increase in other operating expenses was mainly attributable to the increase of provision for slow-moving inventories and loss on disposal of properties in the PRC.

Loss attributable to shareholders of the year ended 31 December 2004 was approximately HK$2.7 million; whereas, the profit attributable to shareholder of HK$8.9 million in 2003.

There was a high competition in the telemedia-services in the PRC in terms of marketing and quality of service therefore, this competition leads to decrease in turnover of the telemedia related and other value-added telecommunication related technical services.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flow and banking facilities, the Group has established a long term relationship with financial institutions in the PRC. The bank borrowings of the Group as at 31 December 2004 amounted to approximately HK$4.7 million (2003: HK$4.7 million) which are repayable within one year, are interest-bearing at prevailing market rates and are denominated in Renminbi ("RMB"). The banking facilities arranged by the Group reflected our strategy to fund the Group's operations in local trading currency. As a result bank borrowing remains stable as compared to previous year, the finance costs of the Group for the year under review were HK$0.3 million.

As at 31 December 2004, the Group has a low gearing ratio of 0.17 (2003: 0.16), calculated on the basis of the Group's bank borrowings over shareholders' funds. Total bank and cash balances were approximately HK$10 million (2003: HK$3.3 million). Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

Capital structure

There was no change in the capital structure of the Group as at 31 December 2004 as compared with that as at 31 December 2003.

Significant investment

During the year under review there was no significant investment held by the Group.

Charge on group assets

As at 31 December 2004, certain land and buildings under long leases outside Hong Kong with net book value of approximately HK$1.4 million were pledged to a bank to secure banking facilities.

Foreign exchange exposure

Since the Group's sales, purchases and loans were substantially denominated in either RMB or HK$, the directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

Contingent liabilities

As at 31 December 2004, the Board was not aware of any material contingent liabilities.

Staff and remuneration policies

As at 31 December 2004, the Group employed a workforce of approximately 277, the majority of whom were employed in the PRC. Staff cost (excluding directors' emoluments), amounted to approximately HK$11 million. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution. Other benefits include contributions to pension scheme and medical insurance.

Future plans for material investments or capital assets

On 2 February 2005, Neolink Communications Technology (Hangzhou) Limited, a Company's subsidiary entered into a sales and purchase agreement with local land bureau in the PRC to acquired land use rights at a total consideration of HK$2,537,000. The Group prepares to finance the land use rights with cash-flow derived from operating activities. Save as disclosed above, the Group did not have any details of future plan for material investments or capital assets as at 31 December 2004.

Acquisitions and disposals of subsidiaries and affiliated companies

The Group had no acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2004.

EXECUTIVE DIRECTORS

Mr. CAI Zuping, aged 47, is the chairman of the Company. Mr. Cai is one of the founders of the Group and is responsible for the overall strategic planning of the Group and the planning of the Group's business development in the PRC. Mr. Cai graduated from an electronic engineering college in Taiyuan, Shanxi, the PRC and since then, has worked in communication related government departments in the PRC for six years. Mr. Cai founded the Group in 1990 and has over 20 years of experience in the communications industry.

Mr. LI Chaobin, aged 51, is the vice chairman of the company and chief executive officer of the Company. Mr. Li joined the Group in 2001 and is responsible for the strategic development and management of the Group. Mr. Li is also the director and deputy general manager of Hubei Qing Jiang, Mr. Li, worked in government departments more than ten years, is a senior officer of economic administration and has over 23 years of experience in project investment and corporate management.

Mr. ZHANG Zheng, aged 43, is an executive director and compliance officer of the Company. Mr. Zhang is responsible for the day-to-day management of the Group's businesses. Mr. Zhang holds a bachelor degree in engineering from Ceramics College of the PRC and has over 19 years of experience in computer and communications. Mr. Zhang joined the Group in 1992. Prior to joining the Group, Mr. Zhang worked for the Hangzhou Automation Research Institute and subsequently worked in a senior management position for five years in a Sino-foreign equity joint venture computer company in the PRC.

Mr. SU Hongjin, aged 41, has over 10 years working experience in investment banking industry. Mr. Su obtained his Master Degree in the South-central Finance University. He was an assistant general manager in the head office of investment bank of The Great Wall Securities Limited, a general manger in the head office of investment bank of Three Gorges Securities Limited and a manager of Investment department of the Shenzhen Branch of China Power-saving Investment Limited and an assistant to president in Yanhai International (Hong Kong) Holdings Company Limited.

NON-EXECUTIVE DIRECTOR

Mr. CHEN Kang, aged 45, was appointed as a non-executive director of the Company on 3 July 2002. Mr. Chen graduated from Beijing University of Chemical Technology, the PRC and Newcastle University of England. Mr. Chen has over 16 years of experience in the fields of chemical technology, information technology and telecommunications. Mr. Chen is currently a director of Smartrade Telecommunications Technology Limited engaged in PRC telecommunications business and a director of Smart Act Software Company Limited engaged in PRC software development.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Ping Wong, aged 41, is an independent non-executive director of the Company. Mr. Wong has been engaged in telecommunications management since Mr. Wong graduated from Beijing University of Postal Telecommunications in 1984. Mr. Wong is currently a director of a company engaged in PRC-Hong Kong telecommunications business.

Mr. PAN Boxin, aged 62, is an independent non-executive director of the Company. Mr. Pan is currently a director who participates in the operations of the Shanghai Diamond Exchange Market which engages in diamond trading and verification.

Mr. SIK Siu Kwan, aged 37, is a member of The Institute of Chartered Accountants in England and Wales. Mr. Sik has more than 10 years of experience in investment banking and finance. Mr. Sik is also the independent non-executive director of Vision Grande Groups Limited, which is a listed public company in the Stock Exchange.

SENIOR MANAGEMENT

Mr. LU Chunming, aged 48, is the vice president of the Company. Mr. Lu is also the general manager of Beijing Neolink Information Technology Company Limited and is responsible for the management of telemedia business of the Group. Mr. Lu graduated from Beijing Teacher's University in the PRC and joined the Group in 1995. Prior to joining the Group, Mr. Lu worked for the Post and Telecommunication Science Research Institute and Authorities Service Bureau of the former MPT. Mr. Lu has more than 20 years of experience in the communications industry.

Mr. CHEN Huanming, aged 40, is the vice president of the Company. Mr. Chen is also the general manager of both Hangzhou Neolink Communication Equipment Company Limited and Neolink Electronic Technology (Beijing) Company Limited. Mr. Chen is responsible for the management of radio trunking systems integration business of the Group. Mr. Chen holds a bachelor degree in electronic engineering from Zhejiang University in the PRC and joined the Group in 1992. Mr. Chen has over 18 years of experience in the electronics and communications industries.

Mr. MI Lei, aged 41, is the head of the research centre of Hangzhou Neolink Communication Equipment Company Limited and is responsible for the research and development of new products for the Group. Mr. Mi graduated from Zhejiang University in the PRC with a bachelor degree in electronic engineering. Mr. Mi joined the Group in 1996 and has over 19 years of experience in the electronics and communications industries.

Mr. ANG Wing Fung, aged 32, holds a Bachelor degree in Accounting and Finance from The University of New South Wales, Australia. He is an associate member of Hong Kong Institute of Certified Public Accountants and a qualified member in CPA Australia. He has over 6 years experience in financial management, auditing and accounting in an international accounting firm and a listed company in Hong Kong.

The directors of the Company ("Directors") submit herewith their annual report together with the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Group is principally engaged in radio trunking systems integration and provision of telemedia-related and other value-added telecommunication-related technical services.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 and the state of the affairs of the Company and of the Group at that date are set out in the financial statements on pages 21 to 55.

The Directors do not recommend the payment of a dividend for the year.

PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2004 are set out in note 14 to the financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group and of the Company are set out in note 13 to the financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in statement of changes in equity on pages 25 and 26.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company has no reserves available for distribution to shareholders (2003: Nil) in accordance with the Companies Law of the Cayman Islands and the Company's Articles of Association.

BANK LOANS

Particulars of the bank loans of the Group as at 31 December 2004 are set out in note 23 to the financial statements.

DONATION

The Group did not make any charitable donation during the year.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year, together with reasons therefore, are set out in notes 24 and 25 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 56.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

– the largest supplier	34%
– five largest suppliers combined	80%

Sales

– the largest customer	51%
– five largest customers combined	76%

The major customers of the Group included Haoyuan Yingte.

Save as mentioned above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

DIRECTORS

The Directors who held office during the year were:

Mr. Wang Dingguo	(resigned on 6 August 2004)
Mr. Cai Zuping	
Mr. Li Chaobin	(appointed on 6 August 2004)
Mr. Liu Taikang	(resigned on 6 August 2004)
Mr. Zhang Zheng	
Mr. Su Hongjin	(appointed on 6 August 2004)
Mr. Chen Kang#	
Mr. Wong Ping Wong*	
Mr. Pan Boxin*	
Mr. Sik Siu Kwan*	(appoint on 18 October 2004)

\# *Non-executive director*
* *Independent non-executive director*

One third of the Directors shall retire at the forthcoming annual general meeting in accordance with Article 87 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

The service contract of each of the executive directors and the non-executive directors shall continue there after unless terminated by not less than three months' notice in writing served by either party to the other.

As at 31 December 2004, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 9 to 10 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 to the financial statements, no contracts of significance in relation to the Company's business to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31st December 2004, the interests of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were 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 Directors, were as follows:

Long positions in ordinary shares of the Company

Name of the Directors	Type of interest	Number of shares	Approximate percentage of issued share capital
Mr. Cai Zuping *(Note 1)*	Corporate	376,585,296	66.77%
Mr. Zhang Zheng *(Note 2)*	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 31st December 2004, none of the Directors or Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associates corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have 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 maintained by the Company referred to therein, or which are required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above and the "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme ("the Scheme") for the purpose of advancing the interests of the Company and its shareholders by enabling the Company to grant Options to attract, retain and reward all the directors, any employee, any consultant or adviser of or to any company in the Group or any invested entity and any supplier of goods or services to any member of the Group or any invested entity, any person or entity that provides research, development or other technological support to the Group or any invested entity, and for the purposes of the New Scheme ("Eligible Person(s)") for their contribution to the Group and by enhancing such Eligible Persons' contribution to increase profits.

The Scheme became effective for a period of 10 years commencing on 17 April 2003. Under the Scheme, the directors of the Company may at their discretion to grant any Eligible Person to subscribe for the shares of the Company ("Share") at the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. The offer of a grant of Option shall remain open for acceptance within 21 days from the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of the Option. The exercise period of the Option must not be more than 10 years from the date of grant of the Option. However, no Option may be exercised before the first anniversary of the date on which the Option is granted.

The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other schemes in force from time to time must not in aggregate exceed 30% of the Share in issue from time to time. The total number of Shares which may be issued upon exercise of all Options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the EGM.

The total number of Shares available for issue under the Scheme as at 31 December 2004 was 56,400,000, representing 10% of the issued share capital of the Company as at 31 December 2004.

During the year, 27,150,000 (2003: Nil) share options were granted to certain employees of the Group. Movements of share options granted under the Scheme during the year are as follows:

Date of grant	Exercise period	Exercise price per share	Closing price before the date of grant	Number of share options outstanding at 1 Jan 2004	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Number of share options outstanding at 31 Dec 2004
24 June 2004	24 June 2005 - 23 June 2008	0.20	0.17	–	27,150,000	–	–	27,150,000

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31st December 2004, so far as is known to the Directors of the Company, the following persons (other than a Director and the Chief Executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of the Shareholders	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, 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 31 December 2004, the Company had not been notified of any other person or company (other than a director or chief executive of the Company) who had registered an interest or short positions in the Shares and underlying Shares of the Company that was required to be recorded under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PENSION SCHEME ARRANGEMENT

Particulars of the pension scheme arrangements are set out in note 28 to the financial statements.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year, which do not constitute connected transactions under GEM Listing Rules, are disclosed in note 29 to the financial statements.

(1) Continuing connected transactions

At the extraordinary general meeting of the Company held on 9 October 2003, the ordinary resolution approving the Ongoing Connected Transactions (as defined and more particularly described in the circular of the Company to the Shareholders dated 17 September 2003) was duly passed by the independent Shareholders, in relation to the continuation of the Haoyuan Yingte Transactions for a three-year period and the Baotong Transaction up to 31 December 2004 which are set out below:

(i) Beijing Neolink Information Technology Company Limited ("Beijing Neolink IT") entered into a technical services agreement with Haoyuan Yingte regarding the provision of telemedia-related and other value-added telecommunication-related technical services by the Group to Haoyuan Yingte. Haoyuan Yingte was a company incorporated in the PRC and was beneficially owned as to 50.6% by Ms. Cai Qianping, the sister of Mr. Cai Zuping, an executive director of the Company, and as to 49.4% by Hubei Qing Jiang. During the year, the total service income earned by the Group amounted to approximately HK$4.3 million.

(ii) Certain subsidiaries of the Company have sold certain specialised government use radio trunking systems and equipment, and rendered related technical services to Baotong for a total consideration of approximately HK$0.7 million. Baotong was a company established in the PRC and was owned as to 55% by Shenzhen Communication which was beneficially owned by Ms. Cai Qianping, the sister of Mr. Cai Zuping, an executive director of the Company, and Hubei Qing Jiang in equal shares.

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that the transactions have been entered into: (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

(2) Other connected transactions

The following transactions are exempted from the reporting, announcement and Shareholders' approval requirements of Chapter 20 of the GEM Listing Rules:

(a) On 1 January 2003, the Company entered into a service agreement with Qing Jiang HK and Harbour Smart regarding the provision of office administration services by the Company to Qing Jiang HK and Harbour Smart. The total service income earned by the Company amounted to HK$20,000 for the year ended 31 December 2004.

(b) On 1 January 2003, the Company entered into a consultancy service agreement with Qing Jiang HK under which Qing Jiang HK provided the consultancy services regarding to marketing of radio trunking systems at a consideration of HK$180,000 during the year.

(c) During the year, Neolink Huadian was advanced a loan of RMB4 million (equivalent to HK$3.7 million) from Shenzhen Communication, which is beneficially owned by Ms. Cai Qianping, the sister of Mr. Cai Zuping, an executive director of the Company, and Hubei Qing Jiang in equal shares, to finance the working capital requirement of Neolink Huadian. The loan was unsecured, interest bearing at 6.13% per annum and payable within one year. The interest paid or payable to Shenzhen Communication for the year amounted to approximately HK$0.1 million.

(d) During the year the Group borrowed loan of approximately HK$3,738,000 (2003: HK$3,673,000) from Shenzhen Communication (Note (ii)). The loan is unsecured, interest-bearing at approximately 6.13% (2003: 5.31%) per annum and is repayable within twelve months.

(e) During the year, the Group borrowed loan of approximately HK$1,262,000 (2003: HK$Nil) from Hangzhou Communication (Note (iv)). The loan is unsecured, interest-free and has no fixed term of repayment.

(f) During the year, the Group's banking facilities amounted to HK$7,477,000 (2003: HK$Nil) were guaranteed by Haoyuan Yingte.

Notes:

(i) Baotong and Haoyuan Yingte are indirectly owned by a relative of Mr. Cai Zuping, a director of the Company.

(ii) Shenzhen Communication is directly owned by a relative of Mr. Cai Zuping, a director of the Company and Shenzhen Jin Jiang Dao Property Development Company, a wholly-owned company of Hubei Qing Jiang (Note (iii)).

(iii) Hubei Qing Jiang, a beneficial shareholder of the ultimate holding company of the Company, is a beneficiary shareholder of Qing Jiang HK and Harbour Smart.

(iv) Hangzhou Communication is indirectly owned by a relative of Mr. Cai Zuping, a director of the Company.

COMPETING INTERESTS

The Directors are not aware of, as at 31 December 2004, any business or interest of each Director, management shareholder and the respective associates 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.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events which have been taken place subsequent to the balance sheet date are set out in note 30 to the financial statements.

AUDIT COMMITTEE

In compliance with Rules 5.28 to 5.29 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 who collectively held four meetings during the current financial year. The Group's audited results for the year ended 31 December 2004 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company not any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2004.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

BOARD PRACTICES AND PROCEDURES

During the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ending 31st December 2005.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. RSM Nelson Wheeler as auditors of the Company.

On behalf of the board

Cai Zuping
Chairman

Hong Kong, 24 March 2005

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

AUDITORS' REPORT
TO THE SHAREHOLDERS OF
NEOLINK CYBER TECHNOLOGY (HOLDING) LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2004 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

24 March 2005

Consolidated Income Statement

For the year ended 31 December 2004

	Note	2004 *HK$'000*	2003 *HK$'000*
Turnover	3	29,306	49,637
Cost of sales and services		(11,192)	(22,286)
Gross profit		18,114	27,351
Other revenue	3	2,335	2,897
Distribution costs		(3,556)	(4,114)
Administrative expenses		(17,279)	(15,575)
Other operating expenses		(1,866)	(934)
(Loss)/profit from operations	5	(2,252)	9,625
Finance costs	6	(312)	(302)
(Loss)/profit before taxation		(2,564)	9,323
Taxation	7	(46)	(408)
(Loss)/profit after taxation		(2,610)	8,915
Minority interests		(91)	(46)
(Loss)/profit attributable to shareholders	8	(2,701)	8,869
		HK cents	HK cents
(Loss)/earnings per share	10	(0.48)	1.57

The notes on pages 29 to 55 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Fixed assets	13	7,504	5,104
Current assets			
Inventories	15	4,659	6,269
Trade receivables	16	20,568	7,831
Prepayments, deposits and other receivables		4,749	8,821
Tax recoverable		135	–
Amounts due from related companies	17	5,745	19,805
Pledged bank deposit	18	331	–
Bank and cash balances	19	9,992	3,289
		46,179	46,015
Less: **Current liabilities**			
Trade payables	20	6,300	4,796
Accruals and other payables		8,314	7,022
Deposit received		410	1,347
Amount due to ultimate holding company	21	2,511	1,299
Amounts due to related companies	22	4,286	1,932
Taxation payable		–	230
Secured bank loan	23	4,673	4,673
		26,494	21,299
Net current assets		19,685	24,716
Total assets less current liabilities		27,189	29,820
Non-current liabilities			
Minority interests		95	4
NET ASSETS		27,094	29,816

The notes on pages 29 to 55 form an integral part of these financial statements.

	Note	2004 HK$'000	2003 HK$'000
Capital and reserves			
Share capital	24	56,400	56,400
Reserves		(29,306)	(26,584)
SHAREHOLDERS' FUNDS		27,094	29,816

Approved by the Board of Directors on 24 March 2005

Cai Zuping
Director

Zhang Zheng
Director

The notes on pages 29 to 55 form an integral part of these financial statements.

Balance Sheet

At 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Fixed assets	13	109	85
Investments in subsidiaries	14	17,048	21,803
		17,157	21,888
Current assets			
Deposits and other receivables		184	163
Amount due from a related company		10	–
Bank and cash balances		55	93
		249	256
Less: **Current liabilities**			
Amount due to ultimate holding company	21	2,464	1,252
Amount due to a related company	22	335	203
Accruals and other payables		758	847
		3,557	2,302
Net current liabilities		(3,308)	(2,046)
NET ASSETS		13,849	19,842
Capital and reserves			
Share capital	24	56,400	56,400
Reserves		(42,551)	(36,558)
SHAREHOLDERS' FUNDS		13,849	19,842

Approved by the Board of Directors on 24 March 2005

Cai Zuping
Director

Zhang Zheng
Director

The notes on pages 29 to 55 form an integral part of these financial statements.

Group

	Share capital	Share premium (Note (ii))	Merger reserve (Note (iii))	Revaluation reserve	General reserve (Note (i))	Enterprise expansion fund (Note (i))	Exchange reserve	Special reserve (Note (iv))	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2003	56,400	26,993	(46,815)	307	3,881	50	(66)	–	(21,302)	19,448
Profit for the year attributable to shareholders	–	–	–	–	–	–	–	–	8,869	8,869
Reserves transferred upon disposal of land and buildings under long leases outside Hong Kong	–	–	–	(13)	–	–	–	–	13	–
Surplus on revaluation of land and buildings under long leases outside Hong Kong	–	–	–	1,489	–	–	–	–	–	1,489
Transfer to general reserve	–	–	–	–	2,041	–	–	–	(2,041)	–
Exchange differences	–	–	–	–	–	–	10	–	–	10
At 31 December 2003	56,400	26,993	(46,815)	1,783	5,922	50	(56)	–	(14,461)	29,816
Loss for the year attributable to shareholders	–	–	–	–	–	–	–	–	(2,701)	(2,701)
Reserves transferred upon disposal of land and buildings under long leases outside Hong Kong	–	–	–	(315)	–	–	–	–	315	–
Transfer to general reserve	–	–	–	–	884	–	–	–	(884)	–
Transfer to special reserve	–	–	–	–	–	–	–	15,936	(15,936)	–
Exchange differences	–	–	–	–	–	–	(21)	–	–	(21)
At 31 December 2004	56,400	26,993	(46,815)	1,468	6,806	50	(77)	15,936	(33,667)	27,094

Statement of Changes in Equity

For the year ended 31 December 2004

Company

	Share capital	Share premium (Note (ii))	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2003	56,400	26,993	(59,990)	23,403
Loss for the year	–	–	(3,561)	(3,561)
At 31 December 2003	56,400	26,993	(63,551)	19,842
Loss for the year	–	–	(5,993)	(5,993)
At 31 December 2004	56,400	26,993	(69,544)	13,849

Notes:

(i) The general reserve and enterprise expansion fund are set up by subsidiaries established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the board of directors of the PRC subsidiaries, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.

(ii) Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to a solvency test on the Company and the provisions of the Articles of Association of the Company.

(iii) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the reorganisation.

(iv) Special reserve represents increase in issued capital by way of transfer from retained profits by one of subsidiaries of the Company during the year. The reserve is restricted for distribution.

The notes on pages 29 to 55 form an integral part of these financial statements.

	2004	2003
	HK$'000	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before taxation	(2,564)	9,323
Adjustments for:		
Interest income	(51)	(36)
Interest expenses	312	302
Depreciation of fixed assets	1,531	1,324
Loss/(gain) on disposal of fixed assets	291	(133)
Provision for bad and doubtful debts	645	934
Provision for slow-moving inventories	930	–
Operating profit before working capital changes	1,094	11,714
Decrease/(increase) in inventories	680	(1,703)
Increase in trade receivables, prepayments, deposits and other receivables	(9,310)	(7,483)
Decrease/(increase) in amounts due from related companies	14,060	(7,249)
Increase in trade payables, accruals and other payables and deposit received	1,859	2,485
Increase/(decrease) in amount due to ultimate holding company	1,212	(1,658)
Increase in amounts due to related companies	2,354	1,675
Cash generated from/(used in) operations	11,949	(2,219)
Interest paid	(312)	(302)
Overseas tax paid, net	(411)	(178)
Net cash generated from/(used in) operating activities	11,226	(2,699)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(4,486)	(1,069)
Sales proceeds from disposal of fixed assets	264	271
Interest received	51	36
Net cash used in investing activities	(4,171)	(762)
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of bank loan	4,673	4,673
Repayment of bank loan	(4,673)	(2,804)
Net cash generated from financing activities	–	1,869

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004 *HK$'000*	2003 *HK$'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	7,055	(1,592)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(21)	10
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,289	4,871
CASH AND CASH EQUIVALENTS AT END OF YEAR	10,323	3,289
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Pledged bank deposit	331	–
Bank and cash balances	9,992	3,289
	10,323	3,289

The notes on pages 29 to 55 form an integral part of these financial statements.

1. GENERAL

The Company was incorporated in the Cayman Islands on 13 October 1999 as an exempted Company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange since 25 July 2000. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, 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 ("HKICPA").

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but it is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the income statement and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

The merger reserve of the Group includes the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of the shares issued by the Company in exchange thereof, and also any existing balance on the share premium account of the subsidiaries.

(c) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

(d) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statements' items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary, the related cumulative exchange difference is included in the income statement as part of the gain or loss on disposal.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets

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

Leasehold land and buildings are stated at valuation, being the fair value at the date of revaluation, less subsequent accumulated amortisation or depreciation and any impairment losses. Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, and is determined on the basis of existing use. Independent valuations are performed periodically. In the intervening years, the directors review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and thereafter debited to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

Amortisation of leasehold land is calculated to write off its valuation over the unexpired periods of the leases on a straight-line basis. The principal annual rate used for this purpose is 1% per annum.

Depreciation of leasehold buildings is calculated to write off their valuation on a straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is the shorter. The principal annual rate used for this purpose is 5% per annum.

Other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	33% to 50%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Computer equipment	33%
Motor vehicles	33%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets (continued)

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to accumulated losses and is shown as a movement in reserves.

(f) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identified and a market exists for the product such that it is probable for it will be profitable. Such development costs are recognised as assets and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. During the year, all research and development costs are expensed in the income statement.

(g) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment no longer exists or has decreased. The reversal is recorded in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the cash flow statement, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that take a substantial period of time to develop for their intended uses or sale are capitalised as part of the carrying value of that asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

During the year, all borrowing costs are expensed as incurred.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(m) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Employee benefits

(i) Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme"), for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) Employees' share options

When the Company grants employees options to acquire shares of the Company, the option exercise price equals the market price of the underlying shares at the date of the grant and no employee benefit cost or obligation is recognised at that time. When the options are exercised, equity is increased by the amount of the proceeds received.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when a present legal or constructive obligation has arisen as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Where the effect of the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(p) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.

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

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

Refund of value added tax is recognised on receipt of government approval of refund.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

(r) Government grants

A government grant is recognised, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

3. TURNOVER AND REVENUE

The Group is principally engaged in sales of radio trunking systems integration and provision of telemedia-related and other value-added telecommunication-related technical services. Revenue recognised is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Turnover		
Provision of telemedia-related and other value-added telecommunication-related technical services	4,367	6,224
Sales of radio trunking systems integration	24,939	36,835
Sales of monitor systems	–	6,578
	29,306	49,637
Other revenue		
Interest income	51	36
Government grant	327	–
Refund of value added tax	1,727	2,646
Others	230	215
	2,335	2,897
Total revenue	31,641	52,534

4. SEGMENT INFORMATION

The Group's business segment comprises radio trunking systems integration and telemedia-related and other value-added telecommunication-related technical services.

No geographical segment information is presented as secondary segment information as substantially all the Group's turnover and contribution to operating results were carried out in the PRC.

4. SEGMENT INFORMATION (continued)

An analysis of the Group's revenue and results for the year and segment assets and liabilities by principal activities is as follows:

	Sales of radio trunking systems integration		Provision of telemedia-related and other value-added telecommunication-related technical services		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER								
Revenue	24,939	36,835	4,367	6,224	–	6,578	29,306	49,637
RESULTS								
Segment results	2,749	9,338	455	2,589	(2,672)	192	532	12,119
Other revenues							2,335	2,897
Unallocated corporate expenses							(5,119)	(5,391)
(Loss)/profit from operations							(2,252)	9,625
Finance costs							(312)	(302)
(Loss)/profit before taxation							(2,564)	9,323
Taxation							(46)	(408)
(Loss)/profit after taxation							(2,610)	8,915
Minority interests							(91)	(46)
(Loss)/profit attributable to shareholders							(2,701)	8,869
ASSETS								
Segment assets	44,481	43,369	2,510	4,432	4,282	2,705	51,273	50,506
Unallocated corporate assets							2,410	613
Total assets							53,683	51,119
LIABILITIES								
Segment liabilities	16,094	15,693	648	603	1,588	2,615	18,330	18,911
Unallocated corporate liabilities							8,164	2,388
Total liabilities							26,494	21,299
OTHER INFORMATION								
Capital expenditure	809	639	687	368	2,990	62	4,486	1,069
Depreciation	554	714	472	407	505	203	1,531	1,324
Provision for bad and doubtful debts	645	934	–	–	–	–	645	934
Provision for slow-moving inventories	930	–	–	–	–	–	930	–

5. (LOSS)/PROFIT FROM OPERATIONS

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
Charging		
Auditors' remuneration	380	380
Cost of goods sold	8,924	19,939
Depreciation of fixed assets	1,531	1,324
Loss on disposal of fixed assets	291	–
Operating lease rentals in respect of land and buildings	1,403	1,577
Provision for bad and doubtful debts	645	934
Provision for slow-moving inventories	930	–
Research and development costs	1,605	3,276
Staff costs, excluding directors' remuneration *(Note 11)*	11,204	9,727
Crediting		
Gain on disposal of fixed assets	–	133

6. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest on secured bank loan (wholly repayable within five years)	86	212
Interest on loan from a related company	114	90
Interest for discounted bills	112	–
	312	302

7. TAXATION

(a) The amount of taxation in the income statement represents:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Hong Kong profits tax *(Note (i))*	–	–
Overseas taxation		
– over-provision in previous year	(168)	–
– current year *(Note (ii))*	214	408
	46	408

Notes:

(i) No provision for Hong Kong profits tax is required as the Group has no assessable profit for the year (2003: HK$Nil).

(ii) Overseas taxation represents tax charges on the assessable profits of certain subsidiaries in the PRC calculated at the applicable rates.

(b) The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
(Loss)/profit before taxation	(2,564)	9,323
Tax at the applicable tax rate of 17.5% (2003: 17.5%)	(449)	1,632
Effect of different tax rates of subsidiaries operating in other jurisdiction	(215)	476
Income of subsidiaries under tax exemption and reduction	(548)	(4,176)
Tax effect of expenses that are not deductible in determining taxable profit	885	696
Tax effect of income that are not taxable in determining taxable profit	(176)	–
Tax effect of utilisation of tax losses not previously recognised	(604)	(70)
Tax effect of unused tax losses not recognised	1,321	1,850
Over-provision of taxation	(168)	–
Taxation charges	46	408

(c) No provision for deferred taxation has been made in the financial statements as the tax effect of the temporary difference is immaterial to the Group.

Deferred tax assets are not recognised for tax losses carry forward due to uncertainty of realisation of the related tax benefit through the future taxable profits. The Group has unrecognised tax losses of approximately HK$40,071,000 (2003: HK$39,670,000), of which approximately HK$10,757,000 (2003: HK$10,974,000) would expire within the coming five years up to year 2009 (2003: 2008). Other losses may be carried forward indefinitely.

8. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders includes a loss of approximately HK$5,993,000 (2003: HK$3,561,000) which has been dealt with in the financial statements of the Company.

9. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2003: HK$Nil).

10. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the net (loss)/profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2004 *HK$'000*	2003 *HK$'000*
(Loss)/profit attributable to shareholders	(2,701)	8,869

	Number of shares 2004	 2003
Weighted average number of ordinary shares in issue during the year	564,000,000	564,000,000

There is no dilution arising from the share options granted by the Company as all the share options were not exercisable within one year from date of grant (Note 25). Accordingly no diluted earnings per share for the year is presented.

11. STAFF COSTS EXCLUDING DIRECTORS' REMUNERATION

	2004 *HK$'000*	2003 *HK$'000*
Salaries and wages	8,504	7,460
Staff welfare benefits	2,101	1,824
Retirement benefits scheme contributions	599	443
	11,204	9,727

12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

The aggregate amounts of remuneration paid and payable to the directors of the Company during the year are as follows:

	2004 HK$'000	2003 HK$'000
Fees:		
– Executive directors	–	–
– Independent non-executive directors	140	120
	140	120
Other emoluments:		
– Executive directors		
Salaries, allowances and benefits in kind	910	845
Retirement benefits scheme contributions	24	24
	934	869
	1,074	989

During the year ended 31 December 2004, two executive directors received individual emoluments of approximately HK$502,000 (2003: HK$402,000) and HK$432,000 (2003: HK$467,000) respectively, and the remaining two executive directors received no emoluments.

During the year ended 31 December 2004, two independent non-executive directors received directors' fee of HK$60,000 (2003: HK$60,000) and HK$60,000 (2003: HK$60,000) respectively during the year. One independent non-executive director, who was appointed during the year received directors' fee of HK$20,000 during the year. One non-executive director received no remuneration for the year ended 31 December 2004 (2003: HK$Nil).

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

	Number of directors 2004	2003
HK$Nil to HK$1,000,000	8	7

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

No director waived or agreed to waive any of their emoluments in respect of two years ended 31 December 2004 and 2003.

12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

(b) Five highest paid individuals

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

	2004 *HK$'000*	2003 *HK$'000*
Salaries, allowances and other benefits in kind	695	1,094
Retirement benefits scheme contributions	23	17
	718	1,111

The number of the highest paid individuals whose remuneration fell within the following band is as follows:

	Number of individuals	
	2004	2003
HK$Nil to HK$1,000,000	3	3

During the year, no remuneration (2003: HK$Nil) was paid by the Group to any of the highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

13. FIXED ASSETS

	Group						
	Land and buildings under long leases outside Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
At 1 January 2004	2,523	1,096	1,048	4,386	2,699	540	12,292
Additions	–	462	347	373	2,919	385	4,486
Disposals	(552)	–	–	(85)	–	–	(637)
At 31 December 2004	1,971	1,558	1,395	4,674	5,618	925	16,141
Accumulated depreciation							
At 1 January 2004	–	984	800	2,810	2,143	451	7,188
Charge for the year	113	73	95	691	449	110	1,531
Disposals	(17)	–	–	(65)	–	–	(82)
At 31 December 2004	96	1,057	895	3,436	2,592	561	8,637
Net book value							
At 31 December 2004	1,875	501	500	1,238	3,026	364	7,504
At 31 December 2003	2,523	112	248	1,576	556	89	5,104

The analysis of the cost or valuation of the above assets at 31 December 2004 is as follows:

	Land and buildings under long leases outside Hong Kong	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	1,558	1,395	4,674	5,618	925	14,170
At 2003 valuation	1,971	–	–	–	–	–	1,971
	1,971	1,558	1,395	4,674	5,618	925	16,141

13. FIXED ASSETS (continued)

	Company			
	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Computer equipment *HK$'000*	Total *HK$'000*
Cost				
At 1 January 2004	179	181	300	660
Additions	–	–	76	76
At 31 December 2004	179	181	376	736
Accumulated depreciation				
At 1 January 2004	179	113	283	575
Charge for the year	–	36	16	52
At 31 December 2004	179	149	299	627
Net book value				
At 31 December 2004	–	32	77	109
At 31 December 2003	–	68	17	85

(a) The Group's land and buildings under long leases outside Hong Kong were revalued at 31 December 2003 on the basis of open market value in existing use by Sallmanns (Far East) Limited, an independent firm of professional valuers. The surplus arising on revaluation has been credited to the revaluation reserve account.

(b) The carrying amount of the Group's land and buildings under long leases outside Hong Kong would have been approximately HK$389,000 (2003: HK$883,000) had it been stated at cost less accumulated depreciation.

(c) At 31 December 2004, the net book value of the Group's land and building under long leases outside Hong Kong pledged as security for banking facilities amounted to approximately HK$1,356,000 (2003: HK$1,419,000) (Note 26).

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost *(Note (a))*	48,600	48,600
Impairment losses	(25,000)	(25,000)
Amounts due from subsidiaries *(Note (b))*	19	3,666
Amounts due to subsidiaries *(Note (b))*	(6,571)	(5,463)
	17,048	21,803

14. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's subsidiaries at 31 December 2004 are as follows:

Name	Place of incorporation and principal place of operation	Issued and fully paid up capital	The Company's equity interest	Principal activities
Directly held:				
Neolink Communications Technology (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
China Gocom Information (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
China Gocom Internet (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
Neolink Wireless Technology Limited	Hong Kong	Ordinary HK$1,000,000	100%	Inactive
China Gocom (Holdings) Limited	Hong Kong	Ordinary HK$1,000,000	100%	Inactive
Indirectly held:				
Neolink Communications Technology Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding and marketing of radio trunking systems
China Gocom Information Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
China Carbase Technology Limited (formerly known as China Gocom Internet Limited)	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Beijing Neolink Information Technology Company Limited (北京優能金脈信息技術有限公司)	The PRC	Registered US$300,000	100%	Trading of products relating to telemedia system and provision of relevant and related technical services
Beijing Neolink Intercity Information Technology Limited (北京優能城際信息技術有限公司) ((formerly known as Beijing Neolink Sky Internet Technology Company Limited) (北京優能天際網絡技術有限公司))	The PRC	Registered US$300,000	100%	Development of information system

14. INVESTMENTS IN SUBSIDIARIES (continued)

Notes (continued):

(a) Details of the Company's principal subsidiaries at 31 December 2004 are as follows (continued):

Name	Place of incorporation and principal place of operation	Issued and fully paid up capital	The Company's equity interest	Principal activities
Indirectly held (continued):				
Hangzhou Neolink Communication Equipment Company Limited (杭州優能通訊設備有限公司)	The PRC	Registered US$290,000	80%	Design, production and sale of radio trunking systems
Neolink Electronic Technology (Beijing) Company Limited (優能科電子技術(北京)有限公司)	The PRC	Registered US$200,000	100%	Marketing of radio trunking systems
Neolink Huadian Electronic Technology (Shenzhen) Company Limited (優能華典電子技術(深圳)有限公司)	The PRC	Registered US$500,000	100%	Sales of radio trunking systems, related hardware and software
Neolink Communications Technology (Hangzhou) Limited (優能通信科技(杭州)有限公司)	The PRC	Registered HK$33,500,000 *(Note (i))*	100%	Development of telecommunication software and provision of related technical services
Neolink Broadway Intelligent Transportation Information Technology (Shanghai) Limited (優能博聞智能交通信息技術(上海)有限公司)	The PRC	Registered US$600,000 *(Note (ii))*	67%	Development and sales of intelligent transportation related hardware and software
Hangzhou Neolink Software Technology Company Limited (杭州優能軟件技術有限公司)	The PRC	Registered HK$1,500,000	100%	Development and sales of radio trunking systems related software

Notes:

(i) The registered capital of Neolink Communications Technology (Hangzhou) Limited was increased from HK$10,000,000 to HK$33,500,000 on 10 March 2004 and HK$31,000,000 has been fully paid at year end.

(ii) The contributed capital of Neolink Broadway Intelligent Transportation Information Technology (Shanghai) Limited is HK$3,136,000 (USD402,000) and HK$998,000 (USD127,942) has been fully paid at year end.

(b) Amounts due from/to subsidiaries are unsecured, interest-free and are not repayable within the next twelve months.

15. INVENTORIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	3,104	2,368
Work in progress	750	887
Finished goods	2,572	3,851
Less: Provision	(1,767)	(837)
	4,659	6,269

No inventories of the Group were carried at net realised value (2003: HK$Nil).

16. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 to 30 days	8,580	2,262
31 to 60 days	2,031	547
61 to 90 days	160	1,118
91 to 120 days	3,986	64
Over 120 days	5,811	3,840
	20,568	7,831

The Group has a policy of allowing its trade customers with credit period normally ranging from 45 days to 60 days or according to the terms of the sales contracts.

17. AMOUNTS DUE FROM RELATED COMPANIES

The ageing analysis of the amounts due from related companies is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 to 30 days	263	13,253
31 to 60 days	–	6,247
61 to 90 days	–	–
91 to 120 days	136	305
Over 120 days	5,346	–
	5,745	19,805

The amounts due from related companies mainly represent trade receivables from Hainan Baotong Communication System Company Limited ("Baotong"), Beijing Haoyuan Yingte Technology Development Company Limited ("Haoyuan Yingte") (Note 29) which are unsecured, interest-free and have no fixed terms of repayment.

18. PLEDGED BANK DEPOSIT

The Group's pledged bank deposit represents a guaranteed deposit placed into the bank for securing a customer contract.

19. BANK AND CASH BALANCES

Included in the Group's bank and cash balances of approximately HK$9,682,000 (2003: HK$2,904,000) were denominated in Renminbi, a currency which is not freely convertible into other currencies.

20. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 to 30 days	3,153	2,678
31 to 60 days	51	76
61 to 90 days	57	69
91 to 120 days	641	34
Over 120 days	2,398	1,939
	6,300	4,796

The Group's trade payables are expected to be settled within one year.

21. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company is unsecured, interest-free and has no fixed terms of repayment.

22. AMOUNTS DUE TO RELATED COMPANIES

Group

The amounts due to related companies mainly represent temporary cash advances from Shenzhen Neolink Communication Technology Company Limited ("Shenzhen Communication") and Hangzhou Neolink Communication System Company Limited ("Hangzhou Communication") (Note 29). These amounts are unsecured, interest-free and has no fixed terms of repayment except for the amount due to Shenzhen Communication which is interest-bearing at approximately 6.13% (2003: 5.31%) per annum and is repayable within twelve months.

Company

The amount due to a related company represents consultancy fees due to Qing Jiang (Hong Kong) Holdings Limited ("Qing Jiang HK"). The amount is unsecured, interest-free and has no fixed terms of repayment.

23. SECURED BANK LOAN

	Group	
	2004	2003
	HK$'000	*HK$'000*
Wholly repayable within one year	4,673	4,673

The bank loan is interest-bearing at prevailing market rates and is guaranteed by the corporate guarantee provided by a related company of the Company and secured by the pledge of the Group's certain land and buildings outside Hong Kong (Note 26).

24. SHARE CAPITAL

	2004		2003	
	Number of shares	**Nominal value**	Number of shares	Nominal value
		HK$		*HK$*
Authorised:				
Ordinary shares of HK$0.10 each	1,000,000,000	100,000,000	1,000,000,000	100,000,000
Issued and fully paid:				
At 1 January and 31 December	564,000,000	56,400,000	564,000,000	56,400,000

25. SHARE OPTIONS

(a) Pursuant to the share option scheme (the "Scheme") adopted by the Company on 17 April 2003, the board of directors may, at their discretion, grant options to the directors, any employee, any consultant or adviser of or to any company in the Group or any invested entity and any supplier of goods or services to any member of the Group or any invested entity, any person or entity that provides research, development or other technological support to the Group or any invested entity, and any company wholly-owned by one or more persons belonging to any of the above classes to which the options are granted (collectively referred to as "Eligible Persons") to subscribe for shares of the Company.

The subscription price will be determined by the board and will be no less than the highest of:

i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option, which must be a business day; and

ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and

iii) the nominal value of the shares.

A nominal consideration at HK$1 should be paid by Eligible Persons for each offer of share option granted.

25. SHARE OPTIONS (continued)

Unless approved by the shareholders of the Company in general meeting, the total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any Eligible Person (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the option to such Eligible Person shall not exceed 1% of the issued share capital of the Company.

Subject to certain conditions, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme in force from time to time must not in aggregate exceed 30% of the shares in issue from time to time. No Option may be granted under the Scheme and any other scheme of the Company (or its subsidiaries) if such grant will result in the aforesaid 30% limit being exceeded.

Eligible Persons may exercise the options, in whole or in part, at any time during the period commencing from after the first anniversary of the date of grant of the option to the expiry date of the exercise period.

The Scheme because effective for a period of 10 years commencing from its date of adoption on 17 April 2003.

(b) During the year, 27,150,000 (2003: Nil) share options were granted to certain employees of the Group. Movements of share options granted under the Scheme during the year are as follows:

Date of grant	Exercise period	Exercise price per share *HK$*	Closing price before the date of grant *HK$*	Number of share options outstanding at 1 Jan 2004	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Number of share options outstanding at 31 Dec 2004
24 June 2004	24 June 2005 – 23 June 2008	0.20	0.17	–	27,150,000	–	–	27,150,000

26. BANKING FACILITIES

At 31 December 2004, the Group's banking facilities of approximately HK$7,477,000 were guaranteed by the corporate guarantee provided by a related company of the Company and secured by the pledge of the Group's certain land and buildings outside Hong Kong (Note 13).

At 31 December 2003, the Group's banking facilities of approximately HK$4,673,000 were guaranteed by the corporate guarantee provided by a subsidiary of the Company and secured by the pledge of the Group's certain land and buildings outside Hong Kong.

27. LEASE COMMITMENTS

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases for the land and buildings are payable as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within one year	1,738	544
In the second to fifth years inclusive	2,509	–
	4,247	544

28. RETIREMENT BENEFIT COSTS

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme (i.e. 5% of staff's relevant income with upper monthly limit of HK$1,000). The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with employees when contributed into the MPF Scheme.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on the applicable basis and rates with the relevant government regulations. (i.e. 8% – 23% of the basic salary).

The only obligation of the Group with respect of the retirement benefit schemes is to make the required contributions under the respective schemes.

The total cost charged to income statement of approximately HK$623,000 (2003: HK$467,000) represents contributions payable to the retirement benefit schemes in Hong Kong and the PRC by the Group for the year ended 31 December 2004 at rates specified in the rules of the relevant schemes. At 31 December 2004, contributions due in respect of the current reporting year had not been paid over the relevant schemes was approximately HK$3,000 (2003: HK$3,000).

29. RELATED PARTY TRANSACTIONS

(a) In the normal course of business the Group entered into the following significant transactions with related parties during the year:

		Group	
		2004	2003
	Note	***HK$'000***	*HK$'000*
Sales of equipment, monitor systems and provision of technical services to			
– Baotong	(i)	685	14,103
– Haoyuan Yingte	(i)	4,330	12,935
Loan interest paid to Shenzhen Communication	(ii)	114	90
Consultancy fee paid to Qing Jiang HK	(iii)	180	180
Office administrative services income received from			
– Qing Jiang HK	(iii)	10	10
– Harbour Smart	(iii)	10	–

(b) During the year the Group borrowed loan of approximately HK$3,738,000 (2003: HK$3,673,000) from Shenzhen Communication (Note (ii)). The loan is unsecured, interest-bearing at approximately 6.13% (2003: 5.31%) per annum and is repayable within twelve months.

(c) During the year, the Group borrowed loan of approximately HK$1,262,000 (2003: HK$Nil) from Hangzhou Communication (Note (iv)). The loan is unsecured, interest-free and has no fixed term of repayment.

(d) During the year, the Group's banking facilities amounted to HK$7,477,000 (2003: HK$Nil) were guaranteed by Haoyuan Yingte.

Notes:

(i) Baotong and Haoyuan Yingte are indirectly owned by a relative of Mr. Cai Zuping, a director of the Company.

(ii) Shenzhen Communication is directly owned by a relative of Mr. Cai Zuping, a director of the Company and Shenzhen Jin Jiang Dao Property Development Company, a wholly-owned company of Hubei Qing Jiang (Note (iii)).

(iii) Hubei Qing Jiang, a beneficial shareholder of the ultimate holding company of the Company, is a beneficiary shareholder of Qing Jiang HK and Harbour Smart.

(iv) Hangzhou Communication is indirectly owned by a relative of Mr. Cai Zuping, a director of the Company.

30. POST BALANCE SHEET DATE EVENTS

(a) Pursuant to a subscription agreement entered into between the Company, China Gocom Internet (BVI) Limited ("China Gocom"), a Company's subsidiary and Pem-America, Inc. in which Pem-America, Inc. shall subscribe for 33,333 shares in China Gocom representing approximately 40% of the issue share capital of China Gocom as enlarged by the subscription at a consideration of HK$23,000,000 which was received by China Gocom in February 2005. The completion of the transaction is subject to certain conditions as stated in the subscription agreement.

(b) On 2 February 2005, Neolink Communications Technology (Hangzhou) Limited, a Company's subsidiary entered into a sales and purchase agreement with local land bureau in the PRC to acquire land use rights at a total consideration of approximately HK$2,537,000.

31. ULTIMATE HOLDING COMPANY

The directors regard, Infonet Group Co., Ltd., a company incorporated in the British Virgin Islands, as being the ultimate holding company.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 21 to 55 were approved by the board of directors on 24 March 2005.

Financial Summary

For the year ended 31 December

	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Turnover	**29,306**	49,637	29,669	31,893	19,988
(Loss)/profit from operations	**(2,252)**	9,625	(2,574)	(15,539)	(8,280)
Finance costs	**(312)**	(302)	(132)	(216)	(101)
(Loss)/profit before taxation	**(2,564)**	9,323	(2,706)	(15,755)	(8,381)
Taxation	**(46)**	(408)	–	(226)	(6)
(Loss)/profit from ordinary activity before minority interests	**(2,610)**	8,915	(2,706)	(15,981)	(8,387)
Minority interests	**(91)**	(46)	179	(137)	391
(Loss)/profit attributable to shareholders	**(2,701)**	8,869	(2,527)	(16,118)	(7,996)
Assets and liabilities					
Total assets	**53,683**	51,119	36,104	53,309	41,726
Total liabilities	**(26,494)**	(21,299)	(16,698)	(17,196)	(9,182)
Minority interests	**(95)**	(4)	42	(137)	–
Shareholders' funds	**27,094**	29,816	19,448	35,976	32,544