優能科技

3rd Quarterly Report 2005

Neolink Cyber Technology (Holding) Limited

(Incorporated in the Cayman Islands with limited liability)

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

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

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

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

This report, for which the directors of Neolink Cyber Technology (Holding) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2005, together with the unaudited comparative figures for the corresponding period in 2004, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2005

		(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2005	2004	2005	2004
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*2*	5,730	5,587	17,197	20,982
Cost of sales and services		(2,157)	(2,399)	(6,281)	(8,087)
Gross profit		3,573	3,188	10,916	12,895
Other revenues	*2*	927	292	1,781	1,359
Distribution costs		(895)	(767)	(2,591)	(2,142)
Administrative expenses		(5,676)	(4,467)	(14,916)	(12,164)
Loss from operations		(2,071)	(1,754)	(4,810)	(52)
Gain from deemed disposal of interest in a subsidiary		–	–	12,861	–
Finance costs		(56)	(36)	(194)	(165)
Profit/(loss) before taxation		(2,127)	(1,790)	7,857	(217)
Taxation	*3*	–	(26)	(153)	(350)
Profit/(loss) after taxation		(2,127)	(1,816)	7,704	(567)
Minority interests		933	(32)	2,088	(42)
Profit/(loss) attributable to shareholders		(1,194)	(1,848)	9,792	(609)
Earnings/(loss) per share *(HK cents)*					
– Basic	*4*	(0.21)	(0.32)	1.74	(0.10)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2005

	Unaudited										
	Share capital HK$'000	Share premium HK$'000 (Note (ii))	Employee share-based compensation reserve HK$'000	Merger Reserve HK$'000 (Note (iii))	Revaluation reserve HK$'000	General Reserve HK$'000 (Note (i))	Enterprise Expansion Fund HK$'000 (Note (i))	Exchange reserve HK$'000	Special reserve HK$'000 (Note (iv))	Accumulated Losses HK$'000	Total HK$'000
Nine months ended 30 September 2004											
At 1 January 2004	56,400	26,993	–	(46,815)	1,783	5,922	50	(56)	–	(14,461)	29,816
Reserves transferred upon disposal of land and buildings under long leases outside Hong Kong	–	–	–	–	(315)	–	–	–	–	–	(315)
Exchange differences	–	–	–	–	–	–	–	(11)	–	–	(11)
Employee share option benefits	–	–	74	–	–	–	–	–	–	(74)	–
Loss attributable to shareholders	–	–	–	–	–	–	–	–	–	(535)	(535)
At 30 September 2004	56,400	26,993	74	(46,815)	1,468	5,922	50	(67)	–	(15,070)	28,955
Nine months ended 30 September 2005											
At 1 January 2005	56,400	26,993	–	(46,815)	1,468	6,806	50	(77)	15,936	(33,667)	27,094
Effect of changes in accounting policies *(Note 1)*	–	–	145	–	–	–	–	–	–	(145)	–
At 1 January 2005 as restated	56,400	26,993	145	(46,815)	1,468	6,806	50	(77)	15,936	(33,812)	27,094
Exchange differences	–	–	–	–	–	–	–	(177)	–	–	(177)
Employee share option benefits	–	–	219	–	–	–	–	–	–	–	219
Profit attributable to shareholders	–	–	–	–	–	–	–	–	–	9,792	9,792
At 30 September 2005	56,400	26,993	364	(46,815)	1,468	6,806	50	(254)	15,936	24,020	36,928

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.

Notes:

1. Basis of preparation and accounting policies

The unaudited consolidated results of the Group have been prepared under the historical cost convention and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The interim financial information has been presented in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005. The adoption of these new HKFRSs has resulted in changes to the Group's accounting policies in the following area.

Share-based payments

Upon adoption of HKFRS 2 "Share-based payments", there is a change in the accounting policy for share-based payments. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. In previous years, the grant of share options to employees was not recognized as an expense in the profit and loss statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

With the adoption of HKFRS 2 retrospectively from 1 January 2005, the accumulated losses for the year as at 1 January 2005 has been adjusted upward by HK$145,000. The loss attributable to shareholders has been increased by HK$74,000 for the period ended 30 September 2004. The adjustment of the said HK$145,000 will be reflected in the prior year comparative figure in the full year financial results for 2005.

The unaudited consolidated results for the nine months ended 30 September 2005 are unaudited but have been reviewed by the audit committee of the Company.

2. **Turnover and revenues**

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

	Three months ended 30 September		Nine months ended 30 September	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
Technical service income				
Telemedia-related services	1,330	1,049	3,300	3,344
Sales of goods				
Radio trunking systems integration	4,400	4,538	13,897	17,638
	5,730	5,587	17,197	20,982
Other revenues				
Interest income	26	4	65	107
Others	901	288	1,716	1,252
	927	292	1,781	1,359
Gain from deemed disposal of interest in a subsidiary	–	–	12,861	–
Total revenues	6,657	5,879	31,839	22,341

3. **Taxation**

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

		Three months ended 30 September		Nine months ended 30 September	
		2005	2004	**2005**	2004
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong profits tax	*(i)*	–	–	–	–
Overseas taxation	*(ii)*	–	26	153	350
		–	26	153	350

Notes:

(i) No provision for Hong Kong profits tax has been made as the Group has no assessable profits for the relevant periods.

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

(iii) No recognition of the potential deferred tax assets relating to tax losses has been made as the recoverability of this potential deferred tax assets is uncertain.

4. **Earnings per share**

The calculation of the basic earning per share for the three months and nine months ended 30 September 2005 is based on the unaudited consolidated loss of approximately HK$1,194,000 and profit HK$9,792,000 attributable to shareholders of the Group (2004: loss HK$1,848,000 and loss HK$609,000) and on the weighted average number of 564,000,000 and 564,000,000 (2004: 564,000,000 and 564,000,000) shares in issue for the three months ended and the nine months ended 30 September 2005 and 2004.

No diluted earnings per share for the period is presented as the Company did not have any dilutive potential shares during the periods.

5. **Dividend**

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2005 (2004: Nil).

6. **Advance to an Entity**

Advance to Hainan Baotong Industries Company Limited

In compliance with Rule 17.15-17.22, the Group is required to disclose advance to entities exceeding 8% of Group's total asset or market capitalization.

The unaudited total asset value of the Group as at 30 September 2005 was approximately HK$63,555,000.

Trade receivable in the amount of approximately HK$11,600,000 were owned from Baotang Industries and its ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the GEM Listing Rules) of the Company. Such trade receivables represented approximately 18% of the unaudited total asset value.

Such trade receivable is unsecured, interest-free and with credit terms 90 days. The amount primarily arose from sales of the Group's radio trunking systems.

FINANCIAL REVIEW

For the nine months ended 30 September 2005, the Group recorded an unaudited consolidated turnover of approximately HK$17,197,000, representing a decrease of approximately 18% as compared with the corresponding period in 2004. Loss from operations for the nine months ended 30 September 2005 was HK$4,810,000 (2004: loss HK$52,000).

During the period, the Group entered into acquisition agreement with Pem-America Inc. to deal with 40% equity interest of a subsidiary, China Gocom Internet (BVI) Limited ("China Gocom") for HK$23,000,000. A gain from the deemed disposal of the Group's interest in China Gocom of approximately HK$12,861,000, which is estimated based on difference between the Group's interest in the China Gocom group before and after the deemed disposal. Except from a gain from deemed disposal, the unaudited loss attributable to shareholders amounted to approximately HK$3,069,000 (2004: Loss HK$609,000). The decrease in turnover is that the government bodies, previously the major customer of the Group, reduced orders as a result of technological upgrade. Gross profit margin increases by 2%, which leads to significant decrease in costs of products. Administrative expenses increased by 23% during the period was mainly attributable to the development of vehicle call centre in Beijing, which include the increase of research and development expenses, staff costs and other operating expenses. Management believes that the newly recruited marketing and technical expertise can help the Group better grasp the opportunities ahead and accelerate the growth of the development of vehicle call centre.

BUSINESS REVIEW AND OUTLOOK

Radio Trunking Systems Integration

For the three months and nine months ended 30 September 2005, the radio trunking business of the Group achieved turnovers of HK$4,400,000 and HK$13,897,000, representing decreases of 0.3% and 21% respectively as compared to the same periods in the previous year. The main reason for the decrease is that the government bodies, which were previously major customers of the Group, reduced their orders as a result of technological upgrade, and the expected orders from the consumer market did not realize.

For the nine months ended 30 September 2005, the radio trunking business of the Group received orders which are expected to be executed this year, with an aggregated value of approximately RMB23,153,408, representing a decrease of 27% compared with RMB31,920,164 in the corresponding period last year. Among these, orders obtained in the third quarter totalled approximately RMB2,970,961, representing a decrease of approximately 57% as compared with RMB6,880,164 in the corresponding period last year. Aside from uncertainty in the consumer market which caused fluctuations, the reduction of orders in general resulted in less orders being executed in the fourth quarter, hence, exerting pressure on the Group's operation.

With the critical business environment, the Group persists to follow the strategy of stable and healthy operation. On the basis of stabilizing the current market, the Group strives to open up new areas in a stable market through research and development of new products to complement the limited traditional market. Semi-digitalized trunking products developed by the Group will be completed in the fourth quarter of this year. Such products, comprising a complete series from systems to terminals, target at the specialized communications market. The Group is currently formulating marketing strategies and sales is expected to commence next year.

Research and development of digital trunking systems and terminals by the Group is still in progress. We plan to introduce Neolink branded digital trunking products this year through independent development and in the form of combining with OEM. We intend to transform our positioning from a system integration operator into a product provider in the areas of new technology, so that we can have a share in the enormous market brought by technological upgrade, thus improving business results of the Group.

With respect to the land in Hangzhou acquired by the Group, the front-end prospecting and designing work was completed. It is currently in the stage of reporting to the government prior to construction and the first phase of work is expected to be postponed until the first quarter of next year.

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

For the three months and nine months ended 30 September 2005, turnovers of telemedia-related and other value-added telecommunication related technical services provided by the Group were HK$1,330,000 and HK$3,300,000 respectively, representing decreases of 27% and 0.1% as compared to the corresponding periods last year. As the tightening of administration regarding value-added telecommunication by the telecommunication administration departments continues and competition within the industry intensifies, the Group's business development is adversely affected. The Group is actively assisting Haoyuan Yingte in seeking new ways of promotion so as to secure more business.

Development of Vehicle Call Center ("Carbase Project")

The Carbase Project is making good progress. The first-generation vehicle terminal currently used specially for the project has completed its first batch production of 1,000 pieces and a small service center is already in trial operation. Preparation for the expansion in scale is also in progress. After almost a month of trial operation, service functions are perfected and the mode of service is now closer to users' needs. The Group intends to continue with their plan of putting this project into official operation this year and relevant marketing is in progress.

Sales contracts were signed for 2100 sets of DimmiT300 taxi anti-robbery and deployment terminals developed by Neolink Broadway, a subsidiary of the Group established in Shanghai. However, as prepayments by customers have not been in place, such products are not yet delivered for the sake of assured payment. The Group maintains exceptional concern over the realization of such sales and has formulated relevant counter-actions.

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

As at 30 September 2005, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

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

Name	Type of interest	Number of shares	Approximate percentage of issued share capital
Mr. Cai Zuping *(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 30 September 2005, none of the directors and chief executives of the Company had registered an interest or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 30 September 2005, the following persons (other than the director and the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Name	Type of interest	Number of shares	Approximate percentage of issued share capital
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. Shu Zhan and Mr. Zheng Xiaoyin are the executive director and shareholder of the Harbour Smart and hold the shares of Harbour Smart on trust for Hubei Qing Jiang Hydro-electric Development Limited, a state-owned corporation in the PRC. Mr. Shu Zhan and Mr. Zheng Xiaoyin, are independent third parties not connected with the directors, chief executive 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.

3. Mr. Wang Yuan and Mr. He Yuefeng are independent third parties not connected with the directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. They are not involved in the management of the Company and its subsidiaries. Mr. Wang Yuan and Mr. He Yuefeng have interest in the Company through their shareholdings of 19.93% and 13.04% in Infonet respectively.

Save as disclosed above, as at 30 September 2005, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION

Pursuant to the Share Option Scheme adopted by the Company on 17 April 2003 ("Share Option Scheme"), as at 30 September 2005, the employees were granted share options to subscribe for shares of the Company, details of which were as follows:

Name of Category of participant	As at 1 January 2005	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 September 2005	Date of granted of share options	Exercise period of share options	Exercise price of share options
Employees	27,150,000	–	–	–	–	27,150,000	24 June 2004	24 June 2005 – 23 June 2008	HK$0.2

None of the employees of the Group had exercised their share options during the period ended 30 September 2005.

Other than the share option scheme as described above, at no time during the period was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors to a acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, or their respective. Associates (which has the meaning ascribed to it under the Rules Governing the Listing of Securities on the GEM), had any right to subscribe for the securities of the Company, or had exercised any such rights during the period.

COMPETING INTERESTS

The directors of the Company are not aware of, as at 30 September 2005, any business or interests of each directors of the Company, management shareholders and the respective associates (as defined in the GEM Listing Rules) of each that competes or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules except that the Board of Directors of the Company is in the process of defining the composition and terms of reference of the Remuneration and Review Committee and it is expected that such process will be completed in fourth quarter.

The Company has received written confirmations from all independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules and therefore considers all independent non-executive directors to be independent.

During the nine months ended 30 September 2005, the Company had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the nine months ended 30 September 2005.

AUDIT COMMITTEE

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. Jin Ge, Mr. Pan Boxin and Mr. Sik Siu Kwan. The Group's unaudited results for the nine months ended 30 September 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2005.

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

Hong Kong, 11 November 2005

As at the date hereof, the executive directors of the Company comprises four executive directors, being Mr. Cai Zuping, Mr. Wu Yangang, Mr. Zhang Zheng and Mr. Sun Guiping; one non-executive director, being Mr. Chen Kang; and three independent non-executive directors being, Mr. Jin Ge, Mr. Pan Boxin and Mr. Sik Siu Kwan.