



Neolink Cyber Technology (Holding) Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8116)



First Quarterly Report
2006

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

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

FIRST QUARTERLY RESULTS

The board of directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2006, together with the unaudited comparative figures for the corresponding period in 2005, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2006

	Notes	(Unaudited) For the three months ended 31 March	
		2006 HK\$'000	2005 HK\$'000
Turnover	2	4,370	3,713
Cost of sales and services		(1,069)	(1,383)
Gross profit		3,301	2,330
Other revenues	2	59	273
Distribution costs		(1,282)	(917)
Administrative expenses		(6,839)	(4,360)
Loss from operations		(4,761)	(2,674)
Gain from deemed disposal of interest in a subsidiary		–	12,861
Finance costs		(56)	(88)
(Loss)/profit before taxation		(4,817)	10,099
Taxation	3	(6)	(5)
(Loss)/profit after taxation		(4,823)	10,094
Minority interests		1,283	400
		(3,540)	10,494
		HK cents	HK cents
(Loss)/earnings per share – Basic	4	(0.63)	1.87

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2006

	Share capital HK\$'000	Share premium HK\$'000	Merger Reserve HK\$'000 (Note (ii))	Revaluation reserve HK\$'000	Unaudited Enterprise		Exchange reserve HK\$'000	Special reserve HK\$'000 (Note (iii))	Share - base compensation reserve HK\$'000	Losses HK\$'000	Accumulated interest HK\$'000	Minority Total HK\$'000
					General Reserve HK\$'000 (Note (i))	Expansion Fund HK\$'000 (Note (i))						
Three months ended 31 March 2005												
At 1 January 2005	56,400	26,993	(46,815)	1,468	6,806	50	(77)	15,936	-	(33,667)	95	27,189
Profit attributable to shareholders	-	-	-	-	-	-	-	-	-	10,494	(400)	10,094
Share of subsidiaries issued	-	-	-	-	-	-	-	-	-	-	10,139	10,139
Exchange differences	-	-	-	-	-	-	(15)	-	-	-	-	(15)
At 31 March 2005	56,400	26,993	(46,815)	1,468	6,806	50	(92)	15,936	-	(23,173)	9,834	47,407
Three months ended 31 March 2006												
At 1 January 2006	56,400	26,993	(46,815)	1,468	6,806	50	627	-	1,092	(7,944)	8,316	46,993
Employee share option benefits	-	-	-	-	-	-	-	-	183	-	-	183
Loss attributable to shareholders	-	-	-	-	-	-	-	-	-	(3,540)	(1,283)	(4,823)
Exchange differences	-	-	-	-	-	-	406	-	-	-	-	406
At 31 March 2006	56,400	26,993	(46,815)	1,468	6,806	50	1,033	-	1,275	(11,484)	7,033	42,759

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) 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.
- (iii) Special reserve represents distributable profits of one of the subsidiaries of the Company for the year 2004 set aside for distribution to its shareholders. The corresponding dividend income was recognized by the intermediate holding company in the year 2005.

Notes:

1. Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of these unaudited consolidated accounts are consistent with those set out in the annual financial statements for the year ended 31 December 2005.

2. Turnover and revenues

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

	(Unaudited)	
	For the three months	
	ended 31 March	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Technical service income		
Telemedia-related and other value-added telecommunication-related technical services	552	1,066
Sales of goods		
Radio trunking systems integration	3,818	2,647
	4,370	3,713
Other revenues		
Interest income	59	3
Others	-	270
	59	273
Total revenues	4,429	3,986

3. Taxation

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

		(Unaudited) For the three months ended 31 March	
	<i>Notes</i>	2006 HK\$'000	2005 <i>HK\$'000</i>
Hong Kong profits tax	<i>(i)</i>	0	0
Overseas taxation	<i>(ii)</i>	6	5
		6	5

Notes:

- (i) No provision for Hong Kong profits tax is required as the Group has no assessable profit for the year (2005: HK\$Nil).
- (ii) Overseas taxation represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.

4. (Loss)/earning per share

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

	2006 HK\$'000	2005 <i>HK\$'000</i>
(Loss)/profit attributable to shareholders	(3,540)	10,494
	Number of shares	
	2006	2005
Number of ordinary shares in issue during the period	564,000,000	564,000,000

No diluted (loss)/earning per share has been presented because the exercise price of the Company's options were higher than the average market price of the shares for the period ended of March 2006.



5. Dividend

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: Nil).

6. Advance to an Entity

Advance to Hainan Baotang Industries Company Limited

In compliance with Rule 17.15, 17.17 and 17.22, the Group is required to disclose advance to entities exceeding 8% of Group's total asset or market capitalization.

Trade receivable in the amount of approximately HK\$6,605,000 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 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 three months ended 31 March 2006, the unaudited consolidated turnover of Group was approximately HK\$4.3 million, representing an increase of approximately 17.7% as compared with the corresponding period in 2005. The unaudited loss attributable to shareholders for the three months ended 31 March 2006 amounted to approximately HK\$3.5 million. In last year, agreement with Pem-America Inc. to dispose 40% equity interests of a subsidiary, China Gocom Internet (BVI) Limited (“China Gocom”) for HK\$23 million. A gain from the deemed disposal of the Group’s interest in China Gocom of approximately HK\$12 million, which is estimated based on the 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 2.4 million.

The business of radio trunking system integration improved the turnover by HK\$1.1 million and 44% as compared to same period in last year. The improvement of business was mainly attributable to increase in delivery orders from government procurement bodies during the first quarter.

During the period ended 31 March 2006, the Group was informed the Haoyuan Yingte will, due to the change in market condition and technology advancement, cease to engage the Group for provision of technical service from 2006 onwards. Thus, the group recorded short period of turnover of HK\$0.5 million for the first quarter in 2006 and the turnover of provision of telemedia-related and other value-added telecommunication-related services decreased by HK\$0.5 million and 48% as compared to first quarter in 2005.

The result of loss attributable to shareholders for the period was mainly attributable to the further development activities for Carbase Projects in Beijing, which include employment of additional staff for research and development activities, and promotion activities. These activities increased distribution costs and administrative expenses by HK\$0.4 million and HK\$2.5 million respectively. Besides, the Carbase Projects will provide services in short period of time and the Group expects to generate income from this business during the year 2006.

Meanwhile, management keeps aware of cost control for the development of Carbase Project in order to achieve better cost control of the Group.

BUSINESS REVIEW AND OUTLOOK

RADIO TRUNKING SYSTEMS INTEGRATION

For the three months ended 31 March 2006, the radio trunking business of the Group recorded turnover of HK\$3.8 million, representing an increase of 44% as compared to the same period in the previous year. The increase is mainly attributable to increase of government procurement orders obtained in the first quarter. Turnover for the whole year is estimated to be comparable to that of last year or to increase over the previous year based on the orders closed or under negotiation at present.

During the first quarter of this year, the Group succeeded in winning a trunking system project for public security police of the whole Ningxia Province together with a partner. The implementation of the project will lay a good foundation for the Group's development of the professional market sector in public security. As various government authorities in the PRC will implement similar projects recently, the market capacity is expected to grow substantially. The Group is striving to capture a larger market share in this professional market with increasing market penetration and upgrading product quality and service.

After continuous review of past business and modification of direction of business, the Group is having clearer picture of the development direction of radio trunking business and obtains initial success. The digital trunking system based on the FDMA system developed by the Group in the year 2005 is at the marketing stage. The technology is able to meet the needs of users during the period of transition from the old digital trunking system standard requirements to the new ones, and outlook of such market is promising. The Group not only stabilises its presence in the existing market, but it is also active in developing sales in a wide variety of user markets in public security, border defence, logistics and municipal contingency co-action units, and overseas markets. With improvement of technology and expansion of target markets, the impact of fluctuation of any single user market to the Group's results is lowered and stable growth of the Group's results is ultimately achieved.

The Group will continue to put great efforts in research and development of digital trunking systems and terminals. The existing plan of integrating digital trunking products of Neolink brand is sustained this year by independent development coupled with OEM and other methods. In new technological areas, the positioning of system integration manufacturer is changed to product provider and the vast market brought by the technology advancement may be shared.

Design and planning for the piece of land acquired by the Group in Hangzhou is already approved by the government and construction on the land is scheduled to commence in the second quarter of this year.



PROVISION OF TELECOM-RELATED SERVICES AND VALUE-ADDED TELECOMMUNICATION-RELATED TECHNICAL SERVICES

After negotiation with Haoyuan Yingte during this quarter, the Group was informed by Haoyuan Yingte that due to the change in market conditions and technology advancement, it ceases to engage the Group for the provision of technical services from February this year. In addition, in order for the Group to concentrate its resources in other businesses and enable the Group to have more flexibility in negotiating terms with Haoyuan Yingte in respect of any technical service agreements, both the Group and Haoyuan Yingte also agreed to terminate the framework agreement in respect of the Haoyuan Yingte Transaction.

DEVELOPMENT OF THE VEHICLE CALL CENTER PROJECT

The Group's major development in respect of the Vehicle Call Center Project will be actively undertaken this year. The first-generation terminal product developed by the project is at the marketing stage. At present, over 400 users are using the service provided by the Group. The Group will keep improving the functions of the terminal products provided based on users' feedback after use and quality of service, and the data volume covered by the service is increasing. The service centre established in Beijing, which has already been put into operation 24-hours a day, provides prompt services to users. The second-generation terminals of the project are still under research and development.

In April this year, the Group arrived at an agreement with Guangdong Development Bank and the bank became a partner of the Group in respect of Vehicle Call Center services. The Group will be able to capitalise on Guangdong Development Bank's strong marketing network to promote the Group's products and services. In addition, Beijing Traffic Management Bureau, China Mobile and other government departments and mega companies give support to the project such that service data are more comprehensive and cost of users in using the system is lowered. The Group is very confident in the project's development.

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

As at 31 March 2006, 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 31 March 2006, 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.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31 March 2006, the following persons (other than the director and the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Notes:

1. Infonet is a company incorporated in the British Virgin Islands which is beneficially owned, among others, as to 26% by Harbour Smart, as to 23.82% by Mr. Cai Zuping, as to 19.93% by Mr. Wang Yuan and as to 13.04% by Mr. He Yuefeng.
2. Harbour Smart, a company incorporated in Hong Kong, has interest in the Company through its shareholding of 26% in Infonet. Mr. 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 31 March 2006, 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 31 March 2006, 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 2006	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 31 March 2006	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 31 March 2006.

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 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 31 March 2006, 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.

AUDIT COMMITTEE

The audit committee has been established since July 2000 with defined terms of reference, which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the GEM Listing Rules, to review the Group's financial reporting, internal controls, and corporate governance and risk management matters and to make relevant recommendations to the Board.

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 three months ended 31 March 2006 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 three months ended 31 March 2006.

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

Hong Kong, 11 May 2006

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.