Neolink Cyber Technology (Holding) Limited

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8116)

# Third Quarterly Report 2006

# 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.**

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

# THIRD QUARTERLY RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2006, together with the unaudited comparative figures for the corresponding period in 2005, are as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the three months and nine months ended 30 September 2006*

| | | (Unaudited) Three months ended 30 September | | (Unaudited) Nine months ended 30 September | |
|---|---|---|---|---|---|
| | | **2006** | 2005 | **2006** | 2005 |
| | *Notes* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Turnover | *2* | **18,122** | 5,730 | **29,119** | 17,197 |
| Cost of sales and services | | **(5,453)** | (2,157) | **(8,068)** | (6,281) |
| Gross profit | | **12,669** | 3,573 | **21,051** | 10,916 |
| Other revenues | *2* | **2,259** | 927 | **2,919** | 1,781 |
| Distribution costs | | **(1,608)** | (895) | **(4,138)** | (2,591) |
| Administrative expenses | | **(8,769)** | (5,676) | **(26,941)** | (14,916) |
| Profit/(Loss) from operations | | **4,551** | (2,071) | **(7,109)** | (4,810) |
| Gain from deemed disposal of interest in a subsidiary | | **–** | – | **–** | 12,861 |
| Finance costs | | **(79)** | (56) | **(270)** | (194) |
| Profit/(loss) before taxation | | **4,472** | (2,127) | **(7,379)** | 7,857 |
| Taxation | *3* | **(113)** | – | **(337)** | (153) |
| Profit/(loss) after taxation | | **4,359** | (2,127) | **(7,716)** | 7,704 |
| Profit/(loss) attributable to shareholders | | **6,042** | (1,194) | **(1,565)** | 9,792 |
| Minority interests | | **(1,683)** | (933) | **(6,151)** | (2,088) |
| | | **4,359** | (2,127) | **(7,716)** | 7,704 |
| Earning/(loss) per share *(HK cents)* – Basic | *4* | **1.07** | (0.21) | **(0.02)** | 1.74 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the nine months ended 30 September 2006*

| | Unaudited | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Merger Reserve HK$'000 (Note (ii)) | Revaluation reserve HK$'000 | General Reserve HK$'000 (Note (i)) | Enterprise Expansion Fund HK$'000 (Note (i)) | Exchange reserve HK$'000 | Special reserve HK$'000 (Note (iii)) | Share-base compen-sation reserve HK$'000 | Accumu-lated Losses HK$'000 | Minority interest HK$'000 | Total HK$'000 |
| **Nine months ended 30 September 2005** | | | | | | | | | | | | |
| **At 1 January 2005 as restated** | 56,400 | 26,993 | (46,815) | 1,468 | 6,806 | 50 | (77) | 15,936 | 364 | (34,031) | 95 | 27,189 |
| Exchange differences | – | – | – | – | – | – | (177) | – | – | – | – | (177) |
| Employee share option benefits | – | – | – | – | – | – | – | – | 546 | – | – | 546 |
| Share of subsidiary issued | – | – | – | – | – | – | – | – | – | – | 11,669 | 11,669 |
| Profit attributable to shareholders | – | – | – | – | – | – | – | – | – | 9,792 | (2,088) | 7,704 |
| **At 30 September 2005** | 56,400 | 26,993 | (46,815) | 1,468 | 6,806 | 50 | (254) | 15,936 | 910 | (24,239) | 9,676 | 46,931 |
| **Nine months ended 30 September 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 |
| Exchange differences | – | – | – | – | – | – | 419 | – | – | – | – | 419 |
| Employee share option benefits | – | – | – | – | – | – | – | – | 546 | – | – | 546 |
| Loss attributable to shareholders | – | – | – | – | – | – | – | – | – | (1,565) | (6,151) | (7,716) |
| **At 30 September 2006** | 56,400 | 26,993 | (46,815) | 1,468 | 6,806 | 50 | 1,046 | – | 1,638 | (9,509) | 2,165 | 40,242 |

*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 condensed consolidated accounts have been prepared under the historical cost convention as modified by the revaluation of leasehold 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 accounting policies and methods of computation adopted in the preparation of those 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 services. Revenues recognized are as follows:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Turnover | | | | |
| Technical service income | | | | |
| Telemedia-related services | **–** | 1,330 | **552** | 3,300 |
| Provision of vehicle telematrics information services | **34** | – | **77** | – |
| Sales of goods | | | | |
| Radio trunking systems integration | **18,088** | 4,400 | **28,490** | 13,897 |
| | **18,122** | 5,730 | **29,119** | 17,197 |
| Other revenues | | | | |
| Interest income | **24** | 26 | **129** | 65 |
| Others | **2,235** | 901 | **2,790** | 1,716 |
| | **2,259** | 927 | **2,919** | 1,781 |
| Gain from deemed disposal of interest in a subsidiary | **–** | – | **–** | 12,861 |
| Total revenues | **20,381** | 6,657 | **32,038** | 31,839 |

## 3. Taxation

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

| | | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|---|
| | | **2006** | 2005 | **2006** | 2005 |
| | *Notes* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong profits tax | *(i)* | **–** | – | **–** | – |
| Overseas taxation | *(ii)* | **113** | – | **337** | 153 |
| | | **113** | – | **337** | 153 |

*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 provision for deferred taxation has been made in the financial statements as the tax effect of the temporary difference is immaterial to the Group.

## 4. Earning/(loss) per share

The calculation of the basic earning/(loss) per share for the three months and nine months ended 30 September 2006 is based on the unaudited consolidated profit of approximately HK$6,042,000 and loss HK$1,565,000 attributable to shareholders of the Group (2005: loss HK$1,194,000 and profit HK$9,792,000) and on the weighted average number of 564,000,000 and 564,000,000 (2005: 564,000,000 and 564,000,000) shares in issue for the three months ended and the nine months ended 30 September 2006 and 2005.

No diluted earning/(loss) per share for the period is presented because the exercise price of the Company's options was higher than the average market price of the shares.

## 5. Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (2005: 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 June 2006 was approximately HK$56,583,000.

Trade receivable in the amount of approximately HK$25,990,000 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 46% 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 2006, the unaudited consolidated turnover of Group was approximately HK$29.2 million, representing an increase of approximately 69% as compared with the corresponding period in 2005. The unaudited loss attributable to shareholders for the nine months ended 30 September 2006 amounted to approximately HK$1.5 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 5 million.

The business of radio trunking system integration recorded 28 million sales, the turnover was improved by HK$15 million and 105% 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 third quarter.

During the period ended 30 September 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$2.7 million and 83% as compared to year 2005. Besides, the group keeps cost control to appropriate size in coming period due to cease the business with Haoyuan Yingte.

The business of Carbase Projects was incurring 14.9 million loss for the nine months. The cost of employment of additional staff for research and development activities and promotion activities was HK$8.3 million. In addition, the Group is testing the market for acceptance of Carbase services, as the market is increasing uncertainty for this Carbase Projects. Therefore, the Group provides 2 millions provision for slow-moving inventories and 3.8 million impairment for fixed assets to reflect to appropriate level of value to the Group assets. These activities increased distribution costs and administrative expenses of the group by HK1.5 million and HK12 million respectively.

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 and nine months ended 30 September 2006, the radio trunking business of the Group achieved turnovers of HK$18,088,000 and HK$28,490,000 respectively, representing an increase of 311% for this quarter and an increase of 105% for the first nine months as compared to the same period in the previous year. Due to certain favorable factors such as substantial increase in government procurement orders and smooth development of the public safety sector market, the turnovers of this quarter and the first nine months have experienced rapid growth.

For the nine months ended 30 September 2006, the radio trunking business of the Group received orders, which are expected to be executed this year, with an aggregate value of approximately RMB41,000,000, representing an increase of 80% as compared with RMB23,000,000 in the same period last year. Among these, orders received in the third quarter recorded RMB1,800,000, representing a decrease of 36% as compared with RMB2,900,000 in the same period last year. The decrease is mainly attributable to early orders from the government purchasing department as compared to previous year with most of which being placed in the first half of the year. Orders received during the third quarter were mainly generated from public safety sector market.

Adhering to the development direction of wireless trunking systems, the Group continued to stabilize and develop government purchase and transportation market. The Group also actively expanded our public safety sector business and continued the development of users markets in public security, border defense, logistics, municipal contingency co-action unit and overseas markets. The user coverage of our public safety sector has been expanded from Beijing to other areas such as Ningxia, Fujian and Guizhou. Sales order arising from such services accounted for 15% of our wireless trunking systems orders as compared to 8% for the same period in the previous year. In addition, the Group was committed to promote the digital trunking system based on the FDMA system developed to increase the understandings of new users, old users and potential users in respect of our product technologies and prepare for further market development. This also helps to build a strong foundation for future development and maintain a stable growth for our results.

The Group is committed in research and development of wireless 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-integration and other methods. The repositioning of the Company from a system integration manufacturer to product provider is accomplished successfully in new technological areas, providing us with vast market opportunities brought by technological advancement.

In accordance with the design approved by the government authorities and the schedule set out in the construction commencement contract signed, the construction project of our plants and offices to be erected on the piece of land acquired by the Group in Hangzhou has been commenced smoothly. It is expected that the construction will be completed by the end of this year and put into operation in 2007.

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

After informed by Haoyuan Yingte during the first quarter of 2006, due to the change in market conditions and technological advancement, it ceased 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 greater flexibility in negotiating terms with Haoyuan Yingte in respect of any technical service agreements, the Group agreed to terminate the framework agreement related to Haoyuan Yingte Transaction. This has resulted to a decrease in turnover from the provision of telecom-related services and other value-added telecommunication-related technical services to HK$500,000, representing a drop of 83% as compared to HK$3,300,000 recorded in the same period of the previous year. With the adjustment in development direction and effective resource reallocation, the income from such services is expected to shrink and phase out gradually from our operations.

## DEVELOPMENT OF VEHICLE CALL CENTER PROJECT

As the focus development of the Group, the Vehicle Call Centre Project continued to keep its fast growing pace during the year. However, the overall progress has been slower than expected. The Group is still looking for effective operation mode with an aim to enlarge our market share under rapid expansion, and to realize returns for investors. The Group plans to extend our reach to Shanghai in the fourth quarter by constructing the Shanghai Service Center.

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

As at 30 September 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 | 365,380,296 | 64.78% |
| Mr. Zhang Zheng *(Note 2)* | Corporate | 365,380,296 | 64.78% |

*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 64.78% 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 2006, 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 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.

### 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 | 365,380,296 | 64.78% |
| Harbour Smart Development Limited ("Harbour Smart") *(Note 2)* | Corporate | 365,380,296 | 64.78% |
| Mr. Wang Yuan *(Note 3)* | Corporate | 365,380,296 | 64.78% |
| Mr. He Yuefeng *(Note 3)* | Corporate | 365,380,296 | 64.78% |

*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 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 30 September 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 30 September 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 30 September 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 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 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.

## CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the nine months ended 30 September 2006.

## 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 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 nine months ended 30 September 2006.

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

Hong Kong, 10 November 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.*