NEOLINK 优能科技

Neolink Cyber Technology (Holding) Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8116)

Annual Report **2006**

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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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DIRECTORS

Executive Directors

Mr. Cai Zuping *(Chairman & Chief Executive Officer)*
Mr. Wu Yangang *(Vice Chairman)*
Mr. Sun Guiping
Mr. Stephen William Frostick

Non-executive Director

Mr. Chen Kang

Independent Non-executive Directors

Mr. Jin Ge *(Chairman)*
Mr. Pan Boxin
Mr. Sik Siu Kwan

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE MEMBERS

Mr. Jin Ge *(Chairman)*
Mr. Pan Boxin
Mr. Sik Siu Kwan

NOMINATION COMMITTEE MEMBERS

Mr. Jin Ge *(Chairman)*
Mr. Pan Boxin
Mr. Sik Siu Kwan

REMUNERATION COMMITTEE MEMBERS

Mr. Jin Ge *(Chairman)*
Mr. Pan Boxin
Mr. Sik Siu Kwan

COMPLIANCE OFFICER

Mr. Cai Zuping

COMPANY SECRETARY

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

QUALIFIED ACCOUNTANT

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

AUDITORS

HLM & Co.
Certified Public Accountants
Room 305,
3rd Floor,
Arion Commercial Centre
2-12 Queen's Road West
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
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Stock Code

8116

Website of the Company

www.neolink.cn

Chairman's Statement

I am pleased to announce the audited annual results of the Group for the year ended 31 December 2006 on behalf of the Board of Directors.

The total turnover of the Group for the year ended 31 December 2006 was HK$37,541,000, representing a significant increase of 35% as compared with HK$27.9 million for the previous year. The increase in turnover is mainly attributed to the rapid and strong increase in government procurement orders and the rise in the public safety sector since its commencement.

The results of the Group were improved mainly due to continuous effort of the Group in stabilising and exploring the government purchasing and transportation markets and active expansion of the public safety sales, coupled with optimisation of the Group's resources in 2006 by disposing of the automobile information service project which had not realised any gains and had brought adverse effect to the results of the Group up to present. It should be noted that the overall development of the Group remains challenging. Subsequent to termination of engagement of the Group for provision of technical service by Haoyuan Yingte effective in February 2006 due to the change in market condition and technology advancement, the Group has mainly focused on the business of radio trunking system integration, which is relatively mature in terms of technology and market, thus exerting tremendous pressure on the Group's business growth and profitability. In future, the Group will continue adhering to its prudent development principle and further boost sales of its business of radio trunking system integration by exploring, researching and developing radio trunking products with self-owned intellectual property, so as to materialize long-term sustainable development of the Group.

The Group's Hangzhou factory compound construction project is processing orderly according to the plans approved by the government authorities and the signed construction contract. As at the end of 2006, the factory has been topped out and is expected to be put into use by the third quarter of 2007.

Progress was made in the placement of new shares at the end of 2006. The Group completed the placement of 248,160,000 new shares in two phases in January and February 2007 with approval. The proceeds were HK$56.5 million. Apart from entering into a non-legally binding memorandum of understanding on 14 February 2007 with an independent third party, Hong Kong Chang Kang (Holdings) Limited（香港長康（控股）有限公司）, to acquire its entire issued share capital for business development of the Group, no specific targets or projects has been identified.

Relying on the basis of resource integration and optimisation in 2006, the Group will fully utilise its technological advantage in the radio trunking sector and its current capital strength to obtain a more optimal profit growth in order to achieve long-term development of the Group while bringing greater returns for the shareholders.

On behalf of the board of Directors, I would like to express my heartfelt thanks to all levels of the staff and the Management for their efforts and contributions in 2006 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

In 2006, the radio trunking business of the Group realized a turnover of HK$36,967,000, representing an increase of HK$15,531,000 and 72% as compared to 2005. This is mainly due to the rapid increase of government procurement orders and actual significant growth of the Group in the development of the public safety business.

Adhering to the clearer development direction and working plan of the radio trunking business in the year, the Group continued to solidify and exploit the government purchase and transportation market. The Group also actively expanded the public safety business in order to gain a foothold in public safety, border defense, logistics, municipal contingency co-action unit and overseas markets. Under joint efforts with partners, after obtaining authority to offer police trunking systems for sale in Ningxia, the Group succeeded to enter the public safety market in Fujian and Guizhou. Meanwhile, the Group won a public security installation project in Shanghai. This allows the Group to transit from fixed markets to variable markets in sale of public safety products, and also further open up the public safety market. At present, the Group's turnover from the public safety area accounted for 10% of the turnover realized by the Group's radio trunking business. We reasonably and confidently believe that the development of sale in such area would be brilliant in the coming year.

The Group has actively promoted its own digital trunking communication system based on the FDMA system. This deepened the understanding of new, existing and potential users towards the features of this technical product, as well as prepared for future market development. This also helps us to build a strong foundation for future development and maintain stable growth of 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 realized in new technological areas, thus helping to share the huge market and opportunities brought by technological advancement.

The construction project of plant and office area on the land acquired by the Group in Hangzhou has been commenced according to the design and planning proposal approved by the government authority and the timetable stipulated in the contract signed. The roof covering process has completed. The building is expected to be ready for use in the autumn of 2007.

Provision of telecom-related services and other value-added telecom-related technical services

Due to changes in the market condition and technical advancement, the Group was informed that Beijing Haoyuan Yingte Technology Development Co., Ltd ("Haoyuan Yingte") ceased to engage the Group for provision of technical services starting from February this year. In addition, in order to concentrate the Group's resources on other business areas and provide it with more flexibility in negotiating terms with Yaoyuan Yingte for any technical service agreements, both the Group and Yaoyuan Yingte also agreed to terminate the framework agreement in respect of transactions with that company. As a consequence, the Group has a short-term turnover of HK$575,000 in 2006. The turnover of provision of telecom-related services and other value-added telecom-related technical services decreased by HK$5,961,000 and 91% from HK$6,535,000 in 2005. With the modification of business development directions of the Group and efficient resources allocation, that business segment is expected to have its income shrunk and phase out gradually from our operations.

Management Discussion and Analysis

Vehicle call center project

As one of the focus development of the Group, the Vehicle Call Center (Carbase Project) has been put into operation for two years since 2004. Although this project is making progress, it has been loss-making and thus brought negative impact to the results of the Group. Since the electronic equipments in continuous research and development and purchased for research and development by the Carbase Project need constant and substantial capital injection from the Group, this poses financial burden to the Group. The relatively new idea of the Carbase Project may also constitute potential investment risks to the Group. Given the above factors, in order to reduce financial burden and potential risks, the Group disposed the Carbase Project at a consideration of HK$3 million in December 2006. The disposal of the Carbase Project is beneficial to the improvement of the future results of the Group as well as mitigating financial burden.

Placing of new shares

In order to broaden the shareholders base and capital base of the Company and to raise capital for the Group to increase available financial resources for future investment opportunities, the Group completed the placing of a total of 248,160,000 new shares on 15 January 2007 and 27 February 2007, raising HK$55,400,000. On 14 February 2007, the Company announced that it had entered into a non-legally binding memorandum of understanding with an independent third party, Hong Kong Chang Kang (Holdings) Limited to acquire its entire issued share capital for development of the Group's businesses. Detailed investment goals or proposals are still subject to negotiation.

FINANCIAL REVIEW

For the year ended 31 December 2006, the consolidated turnover of Group was approximately HK$37.5 million, representing an increase of approximately 34.2% as compared with the last year. The loss attributable to shareholders for the year ended 31 December 2006 amounted to approximately HK$4.8 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 loss attributable to shareholders amounted to approximately HK$5 million.

The business of radio trunking system integration recorded HK$37.0 million sales, the turnover was improved by HK$15 million and 72% as compared to last year. The improvement of business was mainly attributable to increase in delivery orders from government procurement bodies during the third quarter.

During the year ended 31 December 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$5.9 million and 91% 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.

Meanwhile, the Board announced that the Company, Carbase Technology (Hong Kong) Limited ("Carbase (Hong Kong)") and China Gocom entered into the Sale and Purchase Agreement dated 18 December 2006.

The Company shall sell to Carbase (Hong Kong) 50,000 Shares in China Gocom at a consideration of HK$3 million, representing approximately 60% of the issued share capital of China Gocom. China Gocom and its subsidiaries are subsidiaries of the Company.

A gain from the disposal of the Group's interest in China Gocom of approximately HK$1.1 million is expected to result from the sale under the Sale and Purchase Agreement. The gain is calculated based on the difference between the consideration of HK$3 million and the net assets value of the Group's 60% interest in China Gocom as at 30 November 2006 (approximately HK$1.9 million).

Following completion of the Sale and Purchase Agreement, China Gocom will no longer be a member of the Group.

The business of Carbase Projects was incurring HK$17.5 million loss for the year 2006. 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 HK$0.9 millions provision for slow-moving inventories and HK$3.8 million impairment for fixed assets to reflect to appropriate level of value to the Group assets.

The gross profit for the year under review was approximately HK$26.9 million (2005: HK$18.6 million), there was increase in gross profit as compared to last year. The gross profit margin of the Group increased to 71% (2005: 66%), in mainly attributable by HK$8.3 million from increase in delivery orders to government bodies.

HK$5.9 million of other revenue mainly represents the refund of PRC value-added tax and Government grant for special projects of Radio trunking system. During the year, increase in other revenue was 128% as compared to last year.

Distribution costs for the year ended 31 December 2006 increased to approximately HK$4.8 million from HK$4.2 million last year. The increase in distribution cost was mainly due to increase in promotion activities during the year. Administrative expenses increased by 45% to HK$22 million in 2006 (2005: HK$15 million), primarily as a result of written off of intangible asset, increase in depreciation of fixed assets and additional cost for research and development activities.

The loss attributable to shareholder of HK$4.8 million in 2006, whereas, profit attributable to shareholders of the year ended 31 December 2005 was approximately HK$10.2 million .

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 People's Republic of China ("PRC"). The bank borrowings of the Group as at 31 December 2006 amounted to approximately HK$8 million (2005: HK$1.4 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 low level as compared to previous years, the finance costs of the Group for the year under review were HK$0.6 million.

As at 31 December 2006, the Group has a low gearing ratio of 0.21 (2005: 0.03), calculated on the basis of the Group's bank borrowings over shareholders' funds. Total bank and cash balances were approximately HK$12 million (2005: HK$19 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 2006 as compared with that as at 31 December 2005.

Future plans for material investments or capital assets

On 5 March 2007, the Company acquired the entire issued share capital of Hong Kong Chang Kang (Holdings) Limited (香港長康(控股)有限公司)("Chang Kang"), a company incorporated in British Virgin Islands on 8 April 2003 with the issued capital of US$100 from an independent third party at a cash consideration of HK$50,000.

Other than entering into a non-legally binding memorandum of understanding (the "MOU") with ("Chongqing Changan Jinling Automobile Parts Liability Co., Ltd.") ("Changan Jinling") on 26 January 2007, Chang Kang did not commence any business since its incorporation. Pursuant to the MOU, Chang Kang and Changan Jinling is discussing to establish a joint venture company in Chongqing which will be principally engaged in development, production and sales of **automobile stamping and/or welding parts** and its related accessories in the PRC. Pursuant to the MOU, Chang Kang shall make capital contribution in the form of cash for 49% equity interest in the Joint Venture Company and Changan Jinling shall make capital contribution in the form of its automobile stamping and/or welding parts related businesses and/or assets for 51% equity interest in the Joint Venture Company.

To the best of the directors' knowledge, information and belief having made all reasonable enquiry, Changan Jinling and its ultimate beneficial owner of Changan Jinling are third party independent of and not connected with the Company and its subsidiaries, the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the GEM Listing Rules.

Changan Jinling is owned by China South Industries Automobile Corporation and ChangAn Auto Company Limited as to 97.1% and 2.9% respectively. It was set up in the PRC in 2003. Changan Jinling is principally engaged in production and sales of automobile stamping, welding parts and its related accessories in the PRC.

Save as disclosed above, the Group did not have any details of future plan for material investments or capital assets as at 31 December 2005.

Significant Investment

On 2 February 2005, Neolink Communications Technology (Hangzhou) Limited ("Hangzhou Neolink"), 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 HK$2,537,000 (RMB2,715,000). The Group prepares to finance the land use rights with cash-flow derived from operating activities. The area of the land parcel situated in the junction of Nanhuan Road and Jianye Road of Binjiang District, Hangzhou City (the "Land Parcel") is 11,452 sq.m. After purchasing the land use right, Hangzhou Neolink has planned to build an office building as a base for research, development and production of the communications business department on the Land Parcel and has carried out preliminary survey and design of the construction project in the meantime. On 26 June 2006, Hangzhou Neolink entered into a contract with Zhejiang Xiaoshan Construction (浙江蕭山建工) to construct three buildings with aggregate gross floor area of 21,900 sq.m. on the Land Parcel. The consideration of RMB$15,695,000 is not subject to variation and is arrived at after arm's length negotiation between the parties taking into account the gross floor area manpower time and material required by the construction. The construction period is approximately 304 days. Application has been made to the relevant government authority. The commencement date shall be 22 July, subject to the approval of the relevant government authority.

The consideration of RMB$15,695,000 is not subject to variation and is arrived at after arm's length negotiation between the parties taking into account the gross floor area, manpower, time and materials required by the construction. As a prepayment of the project, 5% of the aggregate contract amount shall be paid within 7 working days after entering into the contract. After obtaining a progress certificate issued by qualified inspectors to certify the progress, Hangzhou Neolink will pay the remaining construction fee according to the progress of the construction as follows:

1. 50% of the work done shall be paid and the prepayment shall be deducted within 7 working days after the completion of the floor structure of Fourth Floor of House No. 2; *(Note)*

2. 50% of the work done shall be paid within 7 working days after the capping of the roofing structures of House No. 1, House No. 2 and House No. 3 and the design heights are met; *(Note)*

3. 50% of the work done shall be paid within 7 working days after the construction as a whole meets the conditions of acceptance inspection and the submission of all of the acceptance inspection documents recognized by the project director; *(Note)*

4. 75% of the total construction expense shall be paid within 365 days from the completion date of acceptance inspection;

5. All contract amounts (except the amount retained under the warranty fee terms) shall be settled according to the result of the acceptance inspection within 547 days from the completion date of acceptance inspection.

Note: the relevant payment amount can only be calculated and determined upon the completion of the construction progress.

The Group plans to pay the aggregate contract amount in the following manner: first 50% of the contract amount by cash-flow derived from operating activities and the remaining balance (i.e. 50% of the contract amount) by bank loans.

Save as disclosed above, the Group did not have any details of future plan for material investments or capital assets as at 31 December 2006.

Charge on group assets

As at 31 December 2006, no land and buildings under long leases outside Hong Kong 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 Renminbi or Hong Kong Dollar, the Directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

Contingent liabilities

As at 31 December 2006, the Board was not aware of any material contingent liabilities.

Staff and remuneration policies

As at 31 December 2006, the Group employed a workforce of approximately 121, the majority of whom were employed in the PRC. Staff costs, excluding Directors' emoluments, amounted to approximately HK$14 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.

Management Discussion and Analysis

Acquisitions and disposals of subsidiaries and affiliated companies

The Board announced that the Company, Carbase (Hong Kong) and China Gocom entered into the Sale and Purchase Agreement dated 18 December 2006.

The Company shall sell to Carbase (Hong Kong) 50,000 Shares in China Gocom at a consideration of HK$3 million, representing approximately 60% of the issued share capital of China Gocom. China Gocom and its subsidiaries are subsidiaries of the Company.

A gain from the disposal of the Group's interest in China Gocom of approximately HK$1.1 million is expected to result from the sale under the Sale and Purchase Agreement. The gain is calculated based on the difference between the consideration of HK$3 million and the net assets value of the Group's 60% interest in China Gocom as at 30 November 2006 (approximately HK$1.9 million).

Following completion of the Sale and Purchase Agreement, China Gocom will no longer be a member of the Group.

Save a disclosed above, the Group had no acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2006.

INTRODUCTION

The Code on Corporate Governance Practices (the "CG") contained in Appendix 15 of the GEM Listing Rules was introduced on 1 January 2005, which set out the principles of good corporate governance and the Company is required to comply with the code provisions of the CG. The Company is fully admitted that good corporate governance, as part of the Company's culture, can create values to the Group and our shareholders. The Board is committed to continue to enhance the standards of corporate governance within the Group and to ensure that the Group conducts its businesses in an honest and responsible manner. Except for disclosed in this report, the Group has adopted practices which meets the code provisions of the CG.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the Directors of the Company, all Directors have complied with the required standard of dealings and code of conduct regarding securities transactions by Directors as set out in the code of conduct for the year 2006.

BOARD COMPOSITION

The Board of Directors ("Board") of the Company is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the Chairman and Chief Executive and the management.

The Board comprises a total of Eight Directors, with four Executive Directors, namely, Mr. Cai Zuping (Chairman & Chief Executive Officer), Mr. Wu Yangang (Vice-Chairman), Mr. Stephen William Frostick and Mr. Sun Guiping and one Non-executive Director, namely, Mr. Chen Kang; and three Independent Non-executive Directors, namely, Mr. Jin Ge, Mr. Pan Boxin and Mr. Sik Siu Kwan. one Independent Non-executive Directors have appropriate professional qualifications, accounting and financial management expertise.

The posts of Chairman and Chief Executive Officer are separated to ensure a clear division between the Chairman and Vice Chairman's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business. The separation ensures a balance of power and authority so that power is not concentrated in any one individual. Since Mr. Zhang Zheng has resigned on 1 February 2007. Mr. Cai Zuping has been performing duties of both Chairman and Chief Executive Officer since Mr. Zhang's resignation. The Board considers that the current management structure ensures consistent leadership and optimal efficiency for operation of the Group. The Board comprises of 8 directors, the balance of power and authority between the Board and management will not be compromised.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

BOARD OPERATION

The Board meets regularly over the Company's affairs and operations. In 2006, the Board held four meetings. The attendance record of each member of the Board is set out below:

Executive Directors	**Attendance**
Mr. Cai Zuping *(Chairman)*	7/7
Mr. Wu Yangang *(Vice Chairman)*	7/7
Mr. Zhang Zheng *(Chief Executive Officer)*	7/7
Mr. Sun Guiping	7/7
Non-executive Director	
Mr. Chen Kang	7/7
Independent Non-executive Directors	
Mr. Jin Ge	7/7
Mr. Pan Boxin	7/7
Mr. Sik Siu Kwan	7/7

NON-EXECUTIVE DIRECTORS

The Non-executive Directors are subject to retirement by rotation in accordance with the articles of association of the Company.

All the existing Non-executive Directors are appointed for an initial term of three years and the term of office shall continue after the expiration of the initial term until at least 1 month's prior written notice is given by either party or the Company to terminate the same. Except that they are reimbursed for reasonable expenses incurred during the performance of their duties to the Company and are eligible to be granted share options under the Share Option Scheme.

REMUNERATION OF DIRECTORS

As mentioned above, a remuneration committee was formed on 30 October 2005 for, inter alia, the following purposes:–

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the remuneration packages for Executive Directors and senior management and to make recommendations to the board on the remuneration of Non-executive Directors.

The Remuneration Committee is made up of all of the Company's Independent Non-executive Directors, namely, Mr. Jin Ge, Mr. Pan Boxin and Mr. Sik Siu Kwan.

Meeting has been held in 2007 to review the remuneration packages of Executive Directors, which are nominal by market standards, as the Company does not see a need to review them. The Directors' fees of the Company's Independent Non-executive Directors have not been changed during the year according to market levels and the additional work they are requested to take on, following the formation of the remuneration committee and the nomination committee. The Remuneration Committee held a meeting on 27 March 2007 to consider and approve (a) bonus payments to employees of the Group, (b) salary increases of senior management of the Group and (c) range of salary increase for employees of the Group. Mr. Jin Ge, Mr. Pan Boxin and Mr. Sik Siu Kwan attended this meeting.

The Remuneration Committee will meet and determine the emolument policy and long-term incentive schemes as well as the basis of determining the emolument payable to the Company's Directors in 2007.

NOMINATION OF DIRECTORS

As mentioned above, a Nomination Committee was formed on 31 October 2006 for, inter alia, the following purposes:–

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board;

(b) to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and

(c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The Nomination Committee is made up of all of the Company's Independent Non-executive Directors, namely, Mr. Jin Ge (Chairman), Mr. Pan Boxin and Mr. Sik Siu Kwan. The Nomination Committee held meeting on 27 March, 2007 to review the structure, size and composition of the Company's Board of Directors. Mr. Jin Ge, Mr. Pan Boxin and Mr. Sik Siu Kwan attended this meeting. The Nomination Committee was satisfied with the existing composition of the Company's Board of Directors and recommended no change in the near term.

The Nomination Committee will meet and determine the nomination procedures and the process and criteria to select and recommend candidates for directorship in 2007.

AUDITORS' REMUNERATION

The remuneration in respect of audit provided by the auditors, HLM & Co., to the Company in the year 2006 amounted to HK$350,000. Non-audit services provided by HLM & Co. amounted to HK$60,000.

AUDIT COMMITTEE

The Company's Audit Committee was formed on 13 July 2000 and is currently composed of all three Independent Non-executive Directors of the Company, namely, Mr. Jin Ge, Mr. Pan Boxin, Mr. Sik Siu Kwan. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group.

In 2006, the Audit Committee held four meetings. The attendance record of each member of the Committee is set out below:

	Attendance
Mr. Jin Ge *(Chairman)*	4/4
Mr. Pan Boxin	4/4
Mr. Sik Siu Kwan	4/4

The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in CG Code. In the course of doing so, the Committee has met the company's management, qualified accountant and external auditors during 2007.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view. The Auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. CAI Zuping, aged 49, 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. WU Yangang, aged 55, is the vice chairman of the company is a master degree holder from Huazhong University of Science and Technology. Mr. Wu is currently the Vice General Manger of Hu Bei Qingjiang Hydro-electric Development Co. Ltd., Chairman of Shenzhen Qingjiang Investment and Development Co. Ltd., and Director of Infonet Group Co., Ltd. Mr. Wu had served in governmental departments and state-owned large enterprises and accumulated over 30 years of extensive experience in corporate management and project investment.

Mr. Stephen William Frostick, aged 57, obtained a Juris Doctorate in Old College School of Law, Nevada, Unites States in 1984, a Master of Public Administration and a Bachelor of Science in Business Administration in University of Nevada, Las Vegas, United States in 1976 and 1974 respectively. Currently the president and chief executive officer of the Compeer Group (Macau), Mr. Frostick has over 30 years of experience in leading capacities in the state government of Nevada, United States, large corporations and international consulting organizations. During his past employment in Kepner Tregoe Inc., Mr. Frostick was involved in the design, development and led the implementation of Team Concept in Chrysler Motors Inc. Mr. Frostick also participated in the negotiations in respect of the labour agreements between the United Auto Workers Union and Chrysler Motors Inc. Leverage on Mr. Frostick's automobile business experience, the Group will be in a better position to solicit the aforesaid automobile related investments opportunities and/or projects.

Mr. Frostick is well experienced in strategic planning, operational management and organisation development and has about 30 years of senior management experience. The Company will strengthen its management team with Mr. Frostick's joining.

Mr. SUN Guiping, aged 46, is an Executive Director, is a bachelor degree holder from Chengdu University of Science and Technology and a master degree holder from Wuhan University. Mr. Sun is currently the secretary of commission of Hu Bei QingJing hydro-electric Development Co. Ltd. and Director of Infonet Group Co., Ltd. and Yichang Qingjiang Industry Co. Ltd. Mr. Sun had held senior positions in state-owned large enterprises and accumulated over 20 years of extensive experience in project investment and corporate management.

Mr. ZHANG Zheng, aged 45 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 beahelor degree in engineering from Ceramics College of the PRC and has over 20 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. Zhang has resigned on 1 February 2007.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. CHEN Kang, aged 48, 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 17 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. JIN Ge, aged 57, has obtained bachelor degree of Applied Physics in National Defence Technology University in People's Republic of China. Mr. Jin was participating in research activities in Biology and Physics Laboratory in the China Scientific Research College. He has more than 20 years of experience in institutional management. Since 2002, Mr. Jin is the general manager of Beijing Jin Yun Net Technology Limited.

Mr. PAN Boxin, aged 65, 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 40, 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.

SENIOR MANAGEMENT

Mr. LU Chunming, aged 50, 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 42, is the vice president of the Company. Mr. Chen is also the general manager of both Hangzhou Neolink Communication Equipment Company Limited, Neolink Communications Technology (Hangzhou) Limited, Neolink Electronic Technology (Beijing) Company Limited and Hangzhou Neolink Software Technology 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 20 years of experience in the electronics and communications industries.

Mr. MI Lei, aged 43, 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 20 years of experience in the electronics and communications industries.

Mr. ANG Wing Fung, aged 34, is the Company secretary and finance manager of the Company, 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 9 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 2006.

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 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 and the state of the affairs of the Group at that date are set out in the financial statements on pages 25 to 56.

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 2006 are set out in note 19 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 16 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 page 28 respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company has no reserves available for distribution to shareholders (2005: 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 2006 are set out in note 24 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 25 and 27 to the financial statements.

Report of the Directors

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 57.

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	18%
–	five largest suppliers combined	45%

Sales

–	the largest customer	81%
–	five largest customers combined	91%

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 of the Company during the year end up to the date of this report were:

Mr. Cai Zuping
Mr. Wu Yangang
Mr. Zhang Zheng (resigned on 1 February 2007)
Mr. Sun Guiping
Mr. Stephen William Frostick (appointed on 1 February 2007)
Mr. Chen Kang #
Mr. Jin Ge*
Mr. Pan Boxin*
Mr. Sik Siu Kwan*

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

As at 31 December 2006, 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	363,040,296	64.37%
Mr. Zhang Zheng *(Note 2)*	Corporate	363,040,296	64.37%

Notes:

1. Mr. Cai Zuping, an Executive Director and the chairman and Chief Executive Officer of the Company, holds his deemed interest in the Company through his shareholding of 23.82% in Infonet Group Co., Ltd. ("Infonet") which holds 64.37% 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 December 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.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors, Non-executive Directors and Independent Non-executive Directors has entered into a service contract with the Company for an initial term of three years and will continue thereafter until the contract is terminated by either party giving to the other party not less than one calendar months' notice in writing.

As at 31 December 2006, 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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 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.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the Independent Non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees details of the scheme is set out in note 27 to the financial statements.

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 2006 was 56,400,000, representing 10% of the issued share capital of the Company as at 31 December 2006.

During the year, 27,150,000 (2005: 27,150,000) 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 2006	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 2006
24 June 2004	24 June 2005 – 23 June 2008	0.20	0.17	27,150,000	–	–	–	27,150,000

The board of directors ("Board") of the Company had, in a Board meeting held on 14 January 2007, approved the termination of the existing Share Option Scheme ("Share Option Scheme") dated 17th April 2003. The directors of the Company ("Directors"), including the independent non-executive directors, consider that it is in the interest of the Company to terminate the Share Option Scheme.

Reason for termination – The Directors believe that termination of the Share Option Scheme will avoid dilution of shareholding of the current shareholders as will be true in the case of all the share options being exercised. By terminating the Share Option Scheme, the price of unit share in the Company will be enhanced.

The Company adopted the Share Option Scheme on 14th April 2003 for the purpose of providing incentive and reward to eligible participants who contribute to the success of the group's operations. Pursuant to the Share Option Scheme, the Board is authorized to invite any employees including any executive directors of the Company and its subsidiaries ("Group") to take up option to subscribe for shares of the Company. The Share Option Scheme became effective for a period of ten (10) years commencing on the date of adoption of the Share Option Scheme. Since the adoption of the Share Option Scheme, the Company has granted an aggregate of 24,750,000 option shares to 51 employees of the Group.

Out of the 51 grantees, 24 has since left the employ of the Group and they have therefore become ineligible because of the termination of their employment. None of the said 24 departed grantees had exercised their option before termination of their employment with the Group. The outstanding option of the remaining 27 grantees have not been exercised either.

In accordance with Rule 11 (Cancellation of Option) of the Rules of the Share Option Scheme, the Board has obtained the written consents of all the remaining 27 grantees for cancellation of their outstanding options. As all the outstanding share options have now been cancelled, the termination of the Share Option Scheme is completed.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31 December 2006, 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	363,040,296	64.37%
Harbour Smart Development Limited (“Harbour Smart”) *(Note 2)*	Corporate	363,040,296	64.37%
Mr. Wang Yuan *(Note 3)*	Corporate	363,040,296	64.37%
Mr. He Yuefeng *(Note 3)*	Corporate	363,040,296	64.37%

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 December 2006, 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 32 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 33 to the financial statements.

(1) 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 (Hong Kong) Holdings Limited ("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 2006.

During the year the Group borrowed loan of approximately HK$3,404,000 (2005: HK$3,210,000) from Shenzhen Communication Technology Company Limited ("Shenzhen Communication") (Note (ii)). The loan is unsecured, interest-bearing at approximately 6.13% (2005: 6.13%) per annum and is repayable within twelve months. The interest paid on payable to Shenzhen Communication for the year amounted to approximately HK$0.2 million.

(b) During the year, the Group's banking facilities amounted to HK$8,000,000 (2005: HK$1,429,000) were guaranteed by Haoyuan Yingte.

Notes:

(i) 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 2006, 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.

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 2006.

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 audited total asset value of the Group as at 31 December 2006 was approximately HK$74,897,000.

Trade receivable in the amount of approximately HK$25,236,000 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 34% of the total asset.

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.

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.

AUDITORS

The Company's financial statements were audited by Messrs. RSM Nelson Wheeler for the years ended 31 December 2003 and 2004. The financial statements for the year ended 31 December 2005 and the current year were audited by Messrs. HLM & Co.

A resolution to reappoint Messrs. HLM & Co. as auditors of the Company will be proposed of forthcoming annual general meeting.

On behalf of the board

Cai Zuping
Chairman

Hong Kong, 30 March 2007

恒健會計師行
HLM & Co.
Certified Public Accountants

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TO THE SHAREHOLDERS OF NEOLINK CYBER TECHNOLOGY (HOLDING) LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Neolink Cyber Technology (Holding) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 56, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.
Certified Public Accountants

Hong Kong, 30 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000 (restated)
Continuing operations			
Turnover	6	**37,542**	27,971
Cost of sales and services		**(10,610)**	(9,358)
Gross profit		**26,932**	18,613
Other revenue	6	**5,981**	2,620
Distribution expenses		**(4,807)**	(4,285)
Administrative expenses		**(22,495)**	(15,473)
Profit from operations		**5,611**	1,475
Gain from deemed disposal of interest in a subsidiary		**–**	12,861
Gain on disposal of subsidiaries		**1,121**	–
Finance costs	8	**(600)**	(405)
Profit before tax		**6,132**	13,931
Income tax expense	10	**(1,320)**	(430)
Profit for the year from continuing operations		**4,812**	13,501
Discontinued operations			
Loss before tax from discontinued operations		**(17,451)**	(6,933)
Income tax credit	10	**–**	102
Loss for the year from discontinued operations		**(17,451)**	(6,831)
(Loss) profit for the year	9	**(12,639)**	6,670
(Loss) profit attributable to:			
Shareholders		**(4,815)**	10,151
Minority interest		**(7,824)**	(3,481)
		(12,639)	6,670
Dividends	12	**–**	–
		HK cents	*HK cents*
(Loss) Earnings Per Share			
From continuing and discontinued operations			
Basic (loss) earnings per Share	13	**(0.85)**	1.80
From continuing operations			
Basic earnings per Share	13	**1.00**	2.53

Consolidated Balance Sheet

At 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	**4,656**	9,824
Intangible assets	17	**–**	1,467
Lease premium for land	18	**2,640**	2,571
		7,296	13,862
Current assets			
Inventories	20	**8,057**	6,928
Lease premium for land	18	**56**	50
Trade receivables	21	**32,836**	16,407
Other receivables, deposits and prepayments		**7,938**	5,028
Amounts due from related companies		**6,499**	4,271
Pledged bank deposits		**–**	338
Cash and bank balances		**12,215**	18,929
		67,601	51,951
Current liabilities			
Trade payables	22	**1,938**	1,854
Accruals and other payables		**14,461**	9,133
Deposit received		**249**	397
Amount due to ultimate holding company	23	**3,722**	2,461
Amount due to related companies		**9,033**	3,271
Tax payable		**968**	275
Secured bank loan	24	**8,000**	1,429
		38,371	18,820
Net current assets		**29,230**	33,131
Total assets less current liabilities		**36,526**	46,993
Capital and reserve			
Share capital	25	**56,400**	56,400
Reserves		**(19,874)**	(9,407)
		36,526	46,993

The financial statements on pages 25 to 56 were approved and authorised for issue by the board of directors on 30 March 2007 and are signed on its behalf by:

Mr. Cai Zuping
DIRECTOR

Mr. Stephen William Frostick
DIRECTOR

Balance Sheet

At 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	**50**	96
Interests in subsidiaries	19	**11,998**	13,623
		12,048	13,719
Current assets			
Other receivables, deposits and prepayments		**156**	156
Amount due from a related company		**2,049**	25
Cash and bank balances		**1,178**	207
		3,383	388
Current liabilities			
Amount due to ultimate holding company	23	**3,675**	2,413
Amount due to a related company		**175**	–
Accruals and other payables		**848**	708
		4,698	3,121
Net current liabilities		**(1,315)**	(2,733)
Total assets less current liabilities		**10,733**	10,986
Capital and reserve			
Share capital	25	**56,400**	56,400
Reserves	26	**(45,667)**	(45,414)
		10,733	10,986

Mr. Cai Zuping
DIRECTOR

Mr. Stephen William Frostick
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital HK$'000	Share premium HK$'000	Merger difference (Note (ii)) HK$'000	Revaluation reserve HK$'000	General reserve (Note (i)) HK$'000	Enterprise expansion fund (Note (i)) HK$'000	Exchange reserves HK$'000	Special reserves HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Minority interest HK$'000	Total HK$'000
At 1 January 2005	56,400	26,993	(46,815)	1,468	6,806	50	(77)	15,936	364	(34,031)	95	27,189
Net profit for the year	–	–	–	–	–	–	–	–	–	10,151	(3,481)	6,670
Employee share option benefits	–	–	–	–	–	–	–	–	728	–	–	728
Shares of a subsidiary issued	–	–	–	–	–	–	–	–	–	–	11,702	11,702
Transfer from special reserve	–	–	–	–	–	–	–	(15,936)	–	15,936	–	–
Exchange differences	–	–	–	–	–	–	704	–	–	–	–	704
At 31 December 2005	56,400	26,993	(46,815)	1,468	6,806	50	627	–	1,092	(7,944)	8,316	46,993
At 1 January 2006	56,400	26,993	(46,815)	1,468	6,806	50	627	–	1,092	(7,944)	8,316	46,993
Net loss for the year	–	–	–	–	–	–	–	–	–	(4,815)	(7,824)	(12,639)
Employee share option benefits	–	–	–	–	–	–	–	–	729	–	–	729
Increase in fair value on revaluation of fixed assets	–	–	–	378	–	–	–	–	–	–	–	378
Reallocation of staff welfare fund	–	–	–	–	40	–	–	–	–	–	–	40
Elimination upon disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(802)	(802)
Exchange differences	–	–	–	–	–	–	1,827	–	–	–	–	1,827
At 31 December 2006	**56,400**	**26,993**	**(46,815)**	**1,846**	**6,846**	**50**	**2,454**	**–**	**1,821**	**(12,759)**	**(310)**	**36,526**

(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.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Operating activities			
(Loss) profit for the year		**(12,639)**	6,670
Adjustment for:			
Income tax expense		**1,320**	328
Interest income		**(72)**	(100)
Interest expenses		**600**	405
Depreciation		**3,686**	2,477
Amortisation of intangible assets		**164**	91
Amortisation of lease premium for land		**56**	49
Impairment loss on intangible assets		**1,377**	–
Loss on disposal of property, plant and equipment		**402**	344
Gain on deemed disposal of a subsidiary		**–**	(12,861)
Gain on disposal of subsidiaries		**(1,121)**	–
Share-based option expenses		**729**	728
Provision for bad and doubtful debts		**409**	–
Provision for slow-moving inventories		**888**	–
Operating cash flow before movements in working capital		**(4,201)**	(1,869)
Decrease in inventories		**(2,571)**	(2,269)
(Increase) decrease in trade receivables, prepayment, deposits and other receivables		**(20,098)**	3,882
(Increase) decrease in amounts due from related companies		**(781)**	1,474
Increase (decrease) in trade payables, accruals and other payables and deposits received		**5,366**	(3,640)
Increase (decrease) in amounts due to ultimate holding company		**1,261**	(50)
Increase (decrease) in amounts due to related companies		**5,762**	(1,015)
Cash used in operations		**(15,262)**	(3,487)
Interest paid		**(600)**	(405)
Tax paid		**(627)**	–
Overseas tax refunded		**–**	82
Net cash used in operating activities		**(16,489)**	(3,810)
Investing activities			
Purchases of lease premium for land		**–**	(2,670)
Purchases of property, plant and equipment		**(4,216)**	(5,020)
Sales proceeds from disposal of fixed assets		**5,723**	17
Interest received		**72**	100
Cash outflow on disposal of subsidiaries	30	**(303)**	–
Net Cash generated from (used in) investing activities		**1,276**	(7,573)
Financing activities			
New bank loans raised		**8,000**	1,429
Repayments of bank loans		**(1,429)**	(4,673)
Capital contributed by minority shareholders		**–**	23,000
Net cash generated from financing activities		**6,571**	19,756
Net (decrease) increase in cash and cash equivalents		**(8,642)**	8,373
Effect of foreign exchanges rate changes		**1,590**	571
Cash and cash equivalents at beginning of year		**19,267**	10,323
Cash and cash equivalents at end of year		**12,215**	19,267
Analysis of cash and cash equivalents			
Pledged bank deposits		**–**	338
Cash and bank balances		**12,215**	18,929
		12,215	19,267

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 of Hong Kong Limited (the "Stock Exchange") since 25 July 2000.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 19 to the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 - Group and treasury share transactions[6]

[1] *Effective for annual periods beginning on or after 1 January 2007*
[2] *Effective for annual periods beginning on or after 1 March 2006*
[3] *Effective for annual periods beginning on or after 1 May 2006*
[4] *Effective for annual periods beginning on or after 1 June 2006*
[5] *Effective for annual periods beginning on or after 1 November 2006*
[6] *Effective for annual periods beginning on or after 1 March 2007*

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified by the revaluation of leasehold buildings.

The consolidated financial statements have been prepared in accordance with the new HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment other than land and buildings are stated at cost less depreciation and accumulated impairment losses.

Leasehold buildings are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold buildings	5%
Leasehold improvements	33% to 50%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Computer equipment	33%
Motor vehicles	33%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement in the year in which the item is derecognised.

Lease premium for land

Lease premium for land is represents up-front payments to acquire long-term interests in lessee-occupied properties. The premium is stated at cost and is amortised over the period of the lease on a straight-line basis to the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Foreign currency translation

Transactions in currencies other than the functional currency are initially recorded at the rate of exchange prevailing on the dates of transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life when the asset is available for use.

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liabilities for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet dates.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that is probable the taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable the sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals applicable to operating leases are charged, on a straight-line basis, over the lease term to the consolidated income statement.

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 consolidated 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Employee benefits (continued)

(ii) Employees' share options

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

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.

Government grants

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

Grants relating to income are deferred and recognised in the consolidated 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 consolidated income statement on a straight-line basis over the expected lives of the related assets.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, bank loans, cash and bank balances, trade receivables and trade payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

As the Group's sales and purchases and bank loans are denominated in Hong Kong dollar and Renminbi, the Group's assets and liabilities, and transactions arising from its operations that are exposed to foreign exchange risk are primarily with respect to Hong Kong dollar and Renminbi. Accordingly, the Group has no significant exposure to foreign exchange fluctuations.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group has no significant concentrations of credit risk. The Group regularly reviews the credit terms and credit limits granted to individual customer, and it has policies in place to ensure that sales are made to customers with an acceptable credit history.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through its operations and an adequate amount of committed credit facilities. The management aims to maintain flexibility in funding by keeping committed credit lines available.

Interest rate risk

The Group's income and operating cash flow are substantially independent of change in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents. The Group's exposure to changes in interest rates is mainly attributable to its short-term loans. Short-term loans carry interest at floating rates expose the Group to cash flow interest rate risk.

5. DISCONTINUED OPERATIONS

During the year, the Group disposed of its interest in China Gocom and its subsidiaries to Carbase (Hong Kong), which is wholly-owned by Mr. Zhang Zheng who is an executive director of the company, for a consideration of HK$3 million.

An analysis of the results of the discontinued operations is as follows:

	2006	2005
	HK$'000	*HK$'000*
Other revenue	**273**	64
Distribution expenses	**(1,532)**	(164)
Administrative expenses	**(16,192)**	(6,833)
Loss before tax	**(17,451)**	(6,933)
Income tax credit	**–**	102
Loss for the year	**(17,451)**	(6,831)

6. TURNOVER AND REVENUE

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

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover						
Sales of radio trunking systems integration	**36,967**	21,436	**–**	–	**36,967**	21,436
Provision of telemedia-related and other value-added telecommunication-related technical services	**575**	6,535	**–**	–	**575**	6,535
	37,542	27,971	**–**	–	**37,542**	27,971
Other revenue						
Interest income	**72**	36	**66**	64	**138**	100
Government grant	**–**	752	**–**	–	**–**	752
Refund of value added tax	**3,198**	1,685	**–**	–	**3,198**	1,685
Forfeiture of deposit received	**1,212**	–	**–**	–	**1,212**	–
Others	**1,499**	147	**206**	–	**1,705**	147
	5,981	2,620	**272**	64	**6,253**	2,684
Gain on disposal of subsidiaries	**1,121**	–	**–**	–	**1,121**	–
Gain on deemed disposal of interest in a subsidiary	**–**	12,861	**–**	–	**–**	12,861
Total revenue	**44,644**	43,452	**272**	64	**44,916**	43,516

7. SEGMENT INFORMATION

The Group's business segment comprises radio trunking systems integration and provision of telemedia-related services 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.

7. SEGMENT INFORMATION (continued)

	Continuing operations						Discontinued operations		Consolidated			
	Sales of radio trunking systems integration		Provision of telemedia-related and other value-added telecommunication-related technical services		Others		Sales of global positioning system		Continuing		Discontinued	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER												
Revenue	**36,967**	21,436	**575**	6,535	**–**	–	**–**	–	**37,542**	27,971	**–**	–
RESULTS												
Segment results	**8,539**	3,181	**(786)**	2,411	**118**	–	**(17,724)**	(6,997)	**7,871**	5,592	**(17,724)**	(6,997)
Other revenue									**5,981**	2,620	**273**	64
Gain on disposal of subsidiaries									**1,121**	–	**–**	–
Gain on deemed disposal of a subsidiary									**–**	12,861	**–**	–
Unallocated corporate expenses									**(8,241)**	(6,737)	**–**	–
Profit (loss) from operations									**6,732**	14,336	**(17,451)**	(6,933)
Finance costs									**(600)**	(405)	**–**	–
Profit (loss) before tax									**6,132**	13,931	**(17,451)**	(6,933)
Income tax (expense) credit									**(1,320)**	(430)	**–**	102
Net profit (loss) for the year									**4,812**	13,501	**(17,451)**	(6,831)
Segment assets	**69,177**	41,208	**998**	2,253	**–**	–	**–**	18,352	**70,175**	43,461	**–**	18,352
Unallocated assets									**4,722**	4,000	**–**	–
Total assets									**74,897**	47,461	**–**	18,352
Segment liabilities	**29,869**	11,369	**–**	436	**–**	–	**–**	287	**29,869**	11,805	**–**	287
Unallocated liabilities									**8,502**	6,728	**–**	–
Total liabilities									**38,371**	18,533	**–**	287

8. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on secured bank loan (wholly repayable within five years)	**410**	197	**–**	–	**410**	197
Interest on loan from a related company	**190**	208	**–**	–	**190**	208
	600	405	**–**	–	**600**	405

9. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):						
Auditors' remuneration	**513**	478	**15**	32	**528**	510
Cost of goods sold	**10,154**	6,892	**–**	–	**10,154**	6,892
Depreciation of property, plant and equipment	**2,440**	1,472	**1,246**	1,005	**3,686**	2,477
Amortisation of lease premium for land	**56**	49	**–**	–	**56**	49
Amortisation of intangible assets	**164**	91	**249**	–	**413**	91
Written off of intangible assets	**1,377**	–	**–**	–	**1,377**	–
Loss on disposal of property, plant and equipment	**403**	14	**–**	342	**403**	346
Exchange loss	**131**	–	**–**	–	**131**	–
Operating lease payments in respect of rented premised	**1,520**	1,618	**1,032**	774	**2,552**	2,392
Allowance for bad and doubtful debts	**409**	–	**–**	–	**409**	–
Provision for slow moving inventories	**–**	–	**888**	–	**888**	–
Research and development costs	**1,964**	1,206	**932**	556	**2,896**	1,762
Staff costs, excluding directors' remuneration (Note 14)	**7,519**	10,117	**6,152**	3,129	**13,671**	13,246

10. INCOME TAX EXPENSE

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Hong Kong profits tax *(Note (i))*	**–**	–
Continuing operations		
Overseas tax:		
Under-provision in previous year	**–**	150
Current year *(Note (ii))*	**1,320**	280
	1,320	430
Discontinued operations		
Overseas tax:		
Over-provision in previous year	**–**	(102)
	1,320	328

Note:

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

(a) The tax charge for the year can be reconciled to the profit (loss) per the consolidated income statement as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
(Loss) profit before tax		
Continuing operations	**6,132**	13,931
Discontinued operations	**(17,451)**	(6,933)
	(11,319)	6,998
Tax at the applicable tax rate of 17.5% (2005:17.5%)	**(1,981)**	1,225
Effect of different tax rates of subsidiaries operating in other jurisdiction	**1,599**	(890)
Tax effect of expenses that are not deductible in determining taxable profit	**713**	1,077
Tax effect on temporary differences not recognised	**9**	7
Tax effect of income that are not taxable in determining taxable profit	**(2,008)**	(2,243)
Tax effect of unused tax losses not recognised	**2,988**	1,104
Under (over) -provision of tax	**–**	48
Tax charge for the year	**1,320**	328

10. INCOME TAX EXPENSE (continued)

(b) No provision for deferred tax liabilities 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 carried 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$31,430,000 (2005: HK$21,968,000).

11. NET (LOSS) PROFIT FOR THE YEAR

The net (loss) profit for the year includes a loss of approximately HK$982,000 (2005: HK$3,154,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2005: HK$Nil).

13. (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.

	2006	2005
	HK$'000	*HK$'000*
For continuing and discontinued operations		
(Loss) profit attributable to shareholders	**(4,815)**	10,151
For continuing operations		
Profit attributable to shareholders	**5,656**	14,250

	Number of shares	
	2006	2005
Weighted average number of ordinary shares in issue during the year	**564,000,000**	564,000,000

No diluted loss per share has been presented because the exercise prices of the Company's options were higher than the average market price of the Shares for the year 2006 and 2005.

14. STAFF COSTS EXCLUDING DIRECTORS' REMUNERATION

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Salaries and wages	**6,339**	7,789	**5,425**	2,518	**11,764**	10,307
Staff welfare benefits	**1,043**	1,318	**727**	605	**1,770**	1,923
Retirement benefits scheme contributions	**137**	1,010	**–**	6	**137**	1,016
	7,519	10,117	**6,152**	3,129	**13,671**	13,246

15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

The emoluments paid or payable to each of the 9 (2005: 11) directors were as follows:

The Group	**Fees**	**Salaries, allowances, and other remuneration**	**Employer's contributions to pension schemes**	**2006 Total emoluments**	2005 Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*
Executive Directors					
Mr. Cai Zuping *(Chairman)*	–	585	12	**597**	502
Mr. Li Chaobin	–	–	–	**–**	–
Mr. Zhang Zheng	–	520	12	**532**	417
Mr. Su Hongjin	–	–	–	**–**	–
Non-executive Director					
Mr. Chen Kang	–	–	–	**–**	–
Independent Non-executive Directors					
Mr. Jin Ge	–	60	–	**60**	35
Mr. Wong Ping Wong	–	–	–	**–**	15
Mr. Pan Boxin	–	60	–	**60**	60
Mr. Sik Siu Kwan	–	60	–	**60**	60
Total	–	1,285	24	**1,309**	1,089

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

(a) Directors' remuneration (continued)

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

	2006	2005
HK$Nil to HK$1,000,000	**9**	11

During the year, no remuneration was 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 the two years ended 31 December 2006 and 2005.

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group for the year included two (2005: two) directors whose remuneration are reflected in the analysis presented above. The aggregate remuneration paid and payable to the remaining three (2005: three) individuals during the year are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Salaries, allowances and other benefits in kind	**1,986**	695
Retirement benefits scheme contributions	**66**	23
	2,052	718

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

	2006	2005
HK$Nil to HK$1,000,000	**3**	3

During the year, no remuneration (2005: 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.

16. PROPERTY, PLANT AND EQUIPMENT

	Property under development HK$'000	Land and buildings under medium leases outside Hong Kong HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP								
COST OR VALUATION								
At 1 January 2005	–	1,971	1,558	1,395	4,674	5,618	925	16,141
Exchange rate adjustment	–	38	26	26	83	98	17	288
Additions	139	–	956	40	756	1,770	1,359	5,020
Disposals	–	–	(479)	–	(114)	(382)	–	(975)
At 31 December 2005 and 1 January 2006	139	2,009	2,061	1,461	5,399	7,104	2,301	20,474
Exchange rate adjustment	7	100	102	73	251	331	115	979
Reclassification	–	–	98	1,120	(1,324)	106	–	–
Additions	680	583	7	–	572	960	1,414	4,216
Surplus on revaluation	–	378	–	–	–	–	–	378
Disposals	–	(2,109)	(1,383)	(960)	(1,789)	(5,530)	(1,241)	(13,012)
Eliminated on disposal of subsidiary	–	–	–	–	(77)	(285)	(168)	(530)
At 31 December 2006	**826**	**961**	**885**	**1,694**	**3,032**	**2,686**	**2,421**	**12,505**
DEPRECIATION								
At 1 January 2005	–	96	1,057	895	3,436	2,592	561	8,637
Exchange rate adjustment	–	2	17	17	65	38	11	150
Charge for the year	–	101	211	137	651	1,008	369	2,477
Disposals	–	–	(479)	–	(84)	(51)	–	(614)
At 31 December 2005 and 1 January 2006	–	199	806	1,049	4,068	3,587	941	10,650
Exchange rate adjustment	–	10	40	52	188	159	47	496
Reclassification	–	–	26	991	(1,159)	142	–	–
Charge for the year	–	178	618	284	550	1,038	1,018	3,686
Disposals	–	(315)	(919)	(933)	(1,310)	(2,639)	(771)	(6,887)
Eliminated on disposal of subsidiary	–	–	–	–	(39)	(27)	(30)	(96)
At 31 December 2006	**–**	**72**	**571**	**1,443**	**2,298**	**2,260**	**1,205**	**7,849**
NET BOOK VALUES								
At 31 December 2006	**826**	**889**	**314**	**251**	**734**	**426**	**1,216**	**4,656**
At 31 December 2005	139	1,810	1,255	412	1,331	3,517	1,360	9,824

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The analysis of the cost or valuation of the above assets at 31 December 2006 is as follows:

	Property under development	Land and buildings under medium 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$'000*	*HK$'000*
At cost	826	–	885	1,694	3,032	2,686	2,421	11,544
At valuation	–	961	–	–	–	–	–	961
	826	961	885	1,694	3,032	2,686	2,421	12,505

THE COMPANY	**Leasehold improvement**	**Furniture, fixtures and equipment**	**Computer equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 January 2005	179	181	376	736
Additions	28	18	15	61
Disposal	(179)	–	–	(179)
At 31 December 2005 and 1 January 2006	28	199	391	618
Additions	–	–	–	–
At 31 December 2006	**28**	**199**	**391**	**618**
DEPRECIATION				
At 1 January 2005	179	149	299	627
Charge for the year	14	35	25	74
Written off upon disposal	(179)	–	–	(179)
At 31 December 2005 and 1 January 2006	14	184	324	522
Charge for the year	14	3	29	46
At 31 December 2006	**28**	**187**	**353**	**568**
NET BOOK VALUES				
At 31 December 2006	**–**	**12**	**38**	**50**
At 31 December 2005	14	15	67	96

16. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) The Group's land and buildings under medium teases 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 medium leases outside Hong Kong would have been approximately HK$116,000 (2005: HK$346,000) had it been stated at cost less accumulated depreciation.

(c) At 31 December 2006, the net book value of the Group's land and building under medium leases outside Hong Kong pledged as security for banking facilities amounted to approximately HK$Nil (2005: HK$1,284,000).

17. INTANGIBLE ASSETS

THE GROUP	*HK$'000*
COST	
At 1 January 2005	–
Additions	1,558
At 31 December 2005 and 1 January 2006	1,558
Exchange adjustments	78
Written off	(1,636)
At 31 December 2006	**–**
AMORTISATION AND IMPAIRMENT	
At 1 January 2005	–
Charge for the year	91
At 31 December 2005 and 1 January 2006	91
Exchange adjustments	4
Charge for the year	164
Written off	(259)
At 31 December 2006	**–**
NET BOOK VALUES	
At 31 December 2006	**–**
At 31 December 2005	1,467

Intangible assets represent the consideration to obtain the patent right of using automobile positioning system, which is related to the discontinued operations. Written off of the patent right is due to the disposal of the business of sales of automobile global positioning system during the year.

18. LEASE PREMIUM FOR LAND

THE GROUP	*HK$'000*
COST	
As at 1 January 2005	–
Addition	2,670
As at 31 December 2005 and 1 January 2006	2,670
Exchange adjustments	133
As at 31 December 2006	**2,803**
ACCUMULATED AMORTISATION	
As at 1 January 2005	–
Amortisation for the year	49
As at 31 December 2005 and 1 January 2006	49
Exchange adjustments	2
Amortisation for the year	56
As at 31 December 2006	**107**
NET BOOK VALUES	
As at 31 December 2006	**2,696**
As at 31 December 2005	2,621
Non-current portion	2,640
Current portion of intangible assets	56
	2,696

The leasehold land is held under medium-term lease and situated in PRC.

19. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost *(Note (a))*	**32,733**	48,600
Impairment losses	**(9,133)**	(25,000)
Amounts due from subsidiaries *(Note (b))*	**21**	23
Amounts due to subsidiaries *(Note (b))*	**(11,623)**	(10,000)
	11,998	13,623

(a) Details of the Company's subsidiaries at 31 December 2006 are as follow:

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
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 system
China Gocorn Information Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Beijing Neolink Information Technology Company Limited	The PRC	Registered US$300,000	100%	Trading of products relating to telemedia system and provision of relevant and related technical services

19. INVESTMENT IN SUBSIDIARIES (continued)

Name	Place of incorporation and principal place of operation	Issued and fully paid up capital	The Company's equity interest	Principal activities
Hangzhou Neolink Communication Equipment Company Limited	The PRC	Registered US$290,000	80%	Design, production and sale of radio trunking systems
Neolink Electronic Technology (Beijing) Company Limited	The PRC	Registered US$200,000	100%	Marketing of radio trunking systems
Neolink Huadian Electronic Technology (Shenzhen) Company Limited	The PRC	Registered US$500,000	100%	Sales of radio trunking systems, related hardware and software
Neolink Communications Technology (Hangzhou) Limited	The PRC	Registered HK$33,500,000	100%	Development of telecommunication software and provision of related technical services
Neolink Broadway Intelligent Transportation Information Technology (Shanghai) Limited	The PRC	Registered US$600,000	67%	Development and sales of intelligent transportation related hardware and software
Hangzhou Neolink Software Technology Company Limited	The PRC	Registered HK$1,500,000	100%	Development and sales of radio trunking systems related software

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

20. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**2,568**	6,071
Work in progress	**3,846**	509
Finished goods	**1,643**	2,115
Less: Provision	**–**	(1,767)
	8,057	6,928

21. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
0 to 30 days	**16,144**	3,197
31 to 60 days	**6,312**	2,219
61 to 90 days	**180**	494
91 to 120 days	**1,048**	534
Over 120 days	**9,152**	9,963
	32,836	16,407

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.

An amount of approximately of HK$25,236,000 included in trade receivables were owned from Hainan Baotang Industries Company Limited and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company. Such trade receivable represented approximately 33% of the total asset value. Such trade receivable is unsecured, interest-free and with credit terms of 90 days. The amount primarily arose from sales of the Group's radio trunkling systems.

22. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
0 to 30 days	**–**	504
31 to 60 days	**65**	–
61 to 90 days	**–**	281
Over 120 days	**1,873**	1,069
	1,938	1,854

23. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

24. SECURED BANK LOAN

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Wholly repayable within one year	**8,000**	1,429

The bank loan is interest-bearing at 5.94% and are guaranteed by the corporate guarantee provided by a related company of the Company *(Note 28)*.

25. SHARE CAPITAL

	2006		2005	
	Number of shares	**Nominal Value**	Number of shares	Nominal value
		HK$'000		*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000,000**	**100,000**	1,000,000,000	100,000
Issued and fully paid:				
At 1 January and 31 December	**564,000,000**	**56,400**	564,000,000	56,400

26. RESERVES

COMPANY	Share premium *Note (i)* *HK$'000*	Share-based compensation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2005	26,993	364	(69,908)	(42,551)
Employee share option benefit	–	728	–	728
Loss for the year	–	–	(3,591)	(3,591)
At 31 December 2005	26,993	1,092	(73,499)	(45,414)
At 1 January 2006	26,993	1,092	(73,499)	(45,414)
Employee share option benefit	–	729	–	729
Loss for the year	–	–	(982)	(982)
At 31 December 2006	**26,993**	**1,821**	**(74,481)**	**(45,667)**

(i) 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.

27. 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 as to "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.

27. 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 becomes effective for a period of 10 years which were commenced from its date of adoption on 17 April 2003.

(b) During the year, no (2005: 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 2006	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 2006
24 June 2005	24 June 2006 – 23 June 2008	0.20	0.17	27,150,000	–	–	–	27,150,000

The board of directors of the Company, in a Board meeting held on 14 January 2007, had approved the termination of the Scheme.

28. BANKING FACILITIES

At 31 December 2006, the Group's banking facilities of approximately HK$15,000,000 (2005: HK$11,429,000) are guaranteed by the corporate guarantee provided by Beijing Haoyung Yingte Technology Development Limited ("Haoyuan Yingte"), a related company of the Company.

29. LEASE COMMITMENTS

At 31 December 2006, the capital commitment and minimum lease payments under non-cancellable operating leases for the land and buildings are payable as follows:

	2006	2005
	HK$'000	HK$'000
(a) Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	997	1,656
In more than one year but not exceeding five years	980	1,424
	1,977	3,080

30. DISPOSAL OF SUBSIDIARIES

	2006
	HK$'000
Net assets disposed of:	
Property, plant and equipment	434
Inventories	554
Amounts due from related companies	553
Trade receivables an other receivables	351
Cash and bank balances	1,303
Amounts due to related companies	(37)
Trade payables and other payables	(26)
	3,132
Minority interest	(1,253)
Gain on disposal of subsidiaries	1,121
	3,000
Satisfied by:	
Cash	1,000
Deferred consideration	2,000
	3,000
Net cash outflow arising on disposal during the year:	
Cash consideration	1,000
Cash and bank balances disposed of	(1,303)
	(303)

31. POST BALANCE SHEET EVENTS

On 15 January 2007, the Company has issued 112,800,000 ordinary shares of HK$0.10 each at a price of HK$0.123 per share. All the proceeds are retained as general working capital of the Group.

On 27 February 2007, the Company has further issued 135,360,000 ordinary shares of HK$0.10 each at a price of HK$0.315 per share. All the proceeds are retained as general working capital of the Group.

32. 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 in respect of the retirement benefit schemes is to make the required contributions under the respective schemes.

The total cost charged to the consolidated income statement of approximately HK$342,000 (2005: HK$997,000) represents contributions payable to the retirement benefit schemes in Hong Kong and the PRC by the Group for the year ended 31 December 2006 at rates specified in the rules of the relevant schemes at 31 December 2006, contributions due in respect of the current reporting year had not been paid over to the relevant schemes was approximately HK$ (2005: HK$ Nil).

33. RELATED PARTY TRANSACTIONS

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

		THE GROUP	
		2006	2005
	NOTES	***HK$'000***	*HK$'000*
Sales of equipment, monitor systems and provision of technical services to			
– Haoyuan Yingte	(i)	574	6,535
Loan interest paid to Shenzhen Communication	(ii)	187	193
Office administrative services income received from			
– Qing Jiang HK	(iii)	10	10
– Harbour Smart	(iii)	10	10
Office administrative service expenses paid to CarBase Information Technology (Beijing) Company Limited	(vi)	139	–

33. RELATED PARTY TRANSACTIONS (continued)

(b) During the year the Group borrowed loan of approximately HK$3,404,000 (2005: HK$3,210,000) from Shenzhen Communication (Note (ii)). The loan is unsecured, interest-bearing at approximately 6.13% (2005: 6.13%) per annum and is repayable within twelve months.

(c) During the year, the Group borrowed loan of approximately HK$5,000,000 (2005: HK$Nil) from Hangzhou Neolink Communication System Company Limited ("Hangzhou Communication") (Note (iv)). The loan is unsecured, interest-free and has no fixed term of repayment.

(d) During the year, Carbase (Hong Kong) (Note (v)) purchased 60% interest in China Gocom and its subsidiaries from the Group. The remaining balance of HK$2,000,000 will be settled upon completion of the Sale and Purchase Agreement.

Note:

(i) 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 beneficiary 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.

(v) Carbase (Hong Kong) is wholly-owned by Mr. Zhang Zheng.

(vi) CarBase Information Technology (Beijing) Company Limited is owned by Carbase (Hong Kong).

Compensation of key management personnel

The remuneration of directors and other members of key management during the year can be referenced to note 15(a) and 15(b) to the financial statements. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

34. ULTIMATE HOLDING COMPANY

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

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

Financial Summary

For the year ended 31 December

	2006 HK$'000	(Restated) 2005 HK$'000	(Restated) 2004 HK$'000	(Restated) 2003 HK$'000	(Restated) 2002 HK$'000
Results					
Turnover	**37,542**	27,971	29,306	49,637	29,669
Profit (loss) from operations	**5,611**	1,475	(7,311)	10,472	(1,929)
Gain on deemed disposal of interest in a subsidiary	**–**	12,861	–	–	–
Gain on disposal of subsidiaries	**1,121**	–	–	–	–
Finance costs	**(600)**	(405)	(312)	(302)	(132)
Profit (loss) before tax	**6,132**	13,931	(7,623)	10,170	(2,061)
Income tax expense	**(1,320)**	(430)	(46)	(408)	–
Profit (loss) for the year from continuing operations	**4,812**	13,501	(7,669)	9,762	(2,061)
Loss before tax from discontinued operations	**(17,451)**	(6,933)	4,695	(847)	(645)
Income tax credit	–	102	–	–	–
Loss for the year from discontinued operations	**(17,451)**	(6,831)	4,695	(847)	(645)
	(12,639)	6,670	(2,974)	8,915	(2,706)
Profit (loss) attributable to shareholders	**4,815**	10,151	(3,065)	8,869	(2,527)
(Loss) profit attributable to Minority interests	**(7,824)**	(3,481)	91	46	(179)
(Loss) profit for the year	**(12,639)**	6,670	(2,974)	8,915	(2,706)
Assets and liabilities					
Total assets	**74,897**	65,813	53,683	51,119	36,104
Total liabilities	**(38,371)**	(18,820)	(26,494)	(21,299)	(16,698)
Minority interests	**310**	(8,316)	(95)	(4)	42
Shareholders' funds	**36,836**	38,677	27,094	29,816	19,448