CYBER ON-AIR
創博數碼科技

CYBER ON-AIR GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Broadband

Multimedia

Wireless

Internet

Half-year Report

2003/04

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

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MESSAGE FROM THE CHIEF EXECUTIVE

The Group continued to strengthen its re-defined business focus on the provision of project services (including project management, broadband and antenna installation); network solutions (including telecom and networking products); application solutions (including wireless and multimedia applications); technology product; multimedia services and recruitment services during the six months ended 30 September 2003.

The operating environment for the Group's businesses, especially China, improved remarkably as soon as the outbreak of the Severe Acute Respiratory Syndrome ("SARS") came under control at the end of May. Fueled by the resurgence of economic activities and investment confidence in China, the performance of the Group's China operation was very encouraging in the second quarter of the financial year. However, the Hong Kong operation continued to be affected by severe competition and cost cutting measures.

We believe that China's economy will continue to thrive and the situation in Hong Kong will also benefit from its increasing closer economic ties with China and pick up gradually. Given the positive business environments, the Group plans to launch major marketing campaigns in the second half of the financial year to encourage sales of application products and solutions, especially wireless security management solutions that have proved to be a significant growth driver, and also network solutions.

Encouraged by the satisfactory performance of network solutions in China's telecom market in the first six months of 2003 financial year, the Group will further reinforce this promising strategy to promote Time Server, a network efficiency enhancing device, and Symmetricom, a network synchronization system that raises network quality, to telecom operators and also banking and financial institutions.

The Group is also pleased that the relationship with China Telecom continues to yield positive business opportunities, as additional upgrade and maintenance contracts have been sealed with more of its subsidiaries in major cities of the country. This indicates that the Group has properly established itself in China as a premium and reputable supplier of telecom solutions and services to operators.

In respect of the telecom sector in Hong Kong, the Group believes that successful business development is largely hinged upon the identification and marketing of niche products. Marketing of RAD data communication equipments met with initial success and the Group will step up the campaign to promote public awareness and sales.

Signs of a gradual recovery in the provision of project and engineering services were also evident in both China and Hong Kong. Latest partnership with a 3G system vendor in a bidding process and the pre-qualification process by a system vendor that has won a Government tender for network implementation services present interesting prospects to the Group.

Future development and plans

The second quarter of the 2003 financial year represented the beginning of a more favourable business environment in Hong Kong and China, as reflected by a more positive sentiment and improved sales performance. It is a relief that the economic limbo brought on by SARS was finally over. Blessed by the management foresight in preparing the Group sufficiently for a turnaround and sustaining solid client relationships, the Group has been able to benefit immediately from a rebound of economic activities.

The Group's differentiation strategy in focusing on niche products of substantial demands, such as wireless LAN security and network enhancement solutions, has been awarded with very encouraging business wins. Further strengthening of this approach with a series of marketing campaigns in the second half of the financial year is expected to generate more favourable results to the Group. The management intends to concentrate its focus and resources more on significant growth drivers, and at the same time revaluate the development potential of other non-performing businesses before any re-activation moves are made. The Group is confident that its performance will continue to improve in the second half of the financial year.

Choi Wing Kin
Chief Executive Officer

Hong Kong, 11 November 2003

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group recorded a decrease of 58.3% in total turnover to HK$9.6 million (2002: HK$23.0 million) for the six months ended 30 September 2003, compared with the last corresponding period. Gross profit for the period under review fell 80.1% to HK$2.5 million (2002: HK$12.5 million). This was equivalent to a loss of HK$0.11 per share (2002: HK$0.13).

In Hong Kong, the Group achieved steady sales of network solutions and provision of project services but the sales of application solutions was impacted by severe competition, compared with the first quarter of the financial year. Cost cutting measures have been imposed to further strengthen competitiveness.

China remained a market of tremendous development potential. Turnover and revenue from the operation in China rebounded sharply as the outbreak of the SARS came under control at the end of May. A profit was recorded in the business segments of application solutions, network solutions, project and engineering services in the month of June. This fast pick-up was attributable to the dedication and efforts of the Group's staff in China to keep in close communication with customers during the SARS affected period through e-mail and telephone. This attentive service was fairly rewarded with business orders and a larger market share in the telecom sector.

The management's ability in containing a crisis (i.e. SARS) and turning it around to the benefit of the Group was also evidenced in the successful cost-cutting schemes implemented during the SARS period to reduce the negative impact.

During the period under review, the Group conducted effective measures on cost control by reducing the staff cost by 54% and rental expenses by 63%, compared with the last corresponding period.

Business review

1. Application products (wireless) and solutions

As an established market leader in the provision of wireless application products and services in China, the Group has secured the distributorship for Vernier Networks, a wireless LAN security vendor. A grand product launch and marketing campaign are being planned in strategic cities in China, including Shanghai, Beijing and major cities in the Guangdong province.

In Hong Kong, the Group is liaising closely with one of the universities in Hong Kong for a Vernier Networks project, following the successful contract win from the City University of Hong Kong in the last quarter. As the Hong Kong Government is positive in its revaluation of the Vernier Networks' solutions, this will facilitate future solutions deployment. To push sales further, an advertising campaign is on the drawing board to increase the awareness of the need for wireless LAN security among enterprises to guard against unauthorised entry into proprietary wireless networks.

The provision of wireless security management solutions continues to be a significant growth driver for the Group in 2003 and beyond.

2. Network solutions

As China Telecom's non-exclusive authorised agent for the provision of repair and maintenance services to its network synchronization products in 21 cities, the Group has won contracts from Tibet Telecom for the provision of synchronized clock, Sichuan Telecom and Inner Mongolia Telecom for the upgrading of Plesiochronous Digital Hierarchy (PDH), and from Zhejiang Telecom and Yunnan Telecom for system upgrades. There were also new maintenance contracts with Wuhan Telecom and Zhejiang Telecom.

The first six months of 2003 saw satisfactory development and growth of network solutions in China's telecom market and the management plans to reinforce this successful strategy in the second half of the financial year. In addition, a sales push will be carried out to promote Time Server to the telecom users. In-house market research indicates a remarkable market demand for Time Server products that can provide a highly precise time reference for network equipments, servers and billing systems. The resulting network efficiency helps improve profitability and reduce administrative costs. In fact, the telecom authority of Beijing has targeted the purchase of Time Server for its subsidiary, that is, China Telecom in all provinces. Apart from the telecom sector, banking and financial institutions are also target customers of Time Server.

In Hong Kong, the Group has clinched a contract from China Motion Netcom, one of the new fixed network operators, for the implementation of Symmetricom, a telecommunication network synchronization system that effectively raises network quality. A similar order with another new fixed network operator expects to be sealed in the fourth quarter of the financial year. Marketing for the new product ranges from Symmetricom, in particular the time synchronization system, will be further strengthened to target at the banking and finance sectors.

Sales of RAD products, a global and well-known supplier of data communication equipments, in Hong Kong were steady with new contracts from New World Telecom and Wharf T&T. A marketing campaign is planned to promote public awareness and sales of RAD's new products in the fourth quarter of 2003.

3. Project and engineering services

In Hong Kong, the Group has secured project contracts for Tsuen Wan Plaza, Greenfield Garden at Tsing Yi, Aberdeen Tunnel, Wilson Parking at Star Ferry, Central and Winston Mansion at Tsimshatsui. In addition, the Group is partnering with one of the 3G system vendors for the bidding of the provision of project services to one of the 3G operators, and is also under pre-qualification process by a system vendor that has won a Government tender for the network implementation service.

4. Recruitment business

This business segment was put on hold during the SARS outbreak and now that the epidemic has been properly contained, the Group is looking into restructuring and re-activating the operation.

5. E-business, IT and multimedia services

This on-line content provider operation is no longer a core business of the Group and has been scaled down to provide minimal but sufficient on-line news.

Liquidity and financial resources

Current assets amounted to HK$8.4 million as at 30 September 2003, of which approximately HK$2.5 million were cash, bank deposits and pledged deposits. The gearing ratio, measured in terms of total borrowings divided by total assets, was 143% as at 30 September 2003. The Group obtained its source of funds through various means to balance the cost and risk. Apart from the funds generated from normal operations and the cash and bank deposits, the Group also obtained its source of funds from directors and related companies amounting to approximately HK$27.8 million as at 30 September 2003.

Charges on group assets

A bank deposit amounting to approximately HK$1 million was placed in time deposit as security for general banking facilities granted to a subsidiary of the Company, and it has not been utilised as at 30 September 2003.

Material acquisition and disposal

There was neither significant investment held by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies for the period ended 30 September 2003.

Foreign exchange exposure

As the Group's assets and liabilities remain mainly denominated in Hong Kong dollars and Renminbi, the Board consider that the Group is not significantly exposed to any material foreign currency exchange risk.

Contingent liabilities

As at 30 September 2003, the Company has provided corporate guarantees to Cyber Network Technology Limited, a related company, to secure loans amounted to HK$9.8 million (2002: Nil) granted to subsidiaries.

Employees and remuneration policies

The total number of employees of the Group was 35 as at 30 September 2003 (2002: 56). The Group remunerated its employees on the basis of performance, experience and the prevailing industry practice. In addition to salaries, employee benefits included medical scheme, insurance, Mandatory Provident Fund and share option scheme.

RESULTS

The board of directors (the "Board") of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30 September 2003, together with the comparative unaudited figures for the corresponding period in 2002 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 SEPTEMBER 2003

		Three months ended 30 September		Six months ended 30 September	
		2003	2002	**2003**	2002
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	2	**5,059**	4,747	**9,611**	23,049
Cost of sales		**(3,574)**	(3,764)	**(7,136)**	(10,583)
Gross profit		**1,485**	983	**2,475**	12,466
Interest income		**3**	9	**6**	18
Other revenue		**4**	17	**7**	938
Depreciation and amortisation		**(459)**	(541)	**(1,056)**	(1,142)
Advertising and promotion expenses		**(1)**	(41)	**(23)**	(144)
General and administrative expenses		**(2,600)**	(9,973)	**(6,471)**	(17,531)
Amortisation of goodwill		**(1,851)**	(1,863)	**(3,702)**	(3,097)
Loss from operations	3	**(3,419)**	(11,409)	**(8,764)**	(8,492)
Finance costs		**(303)**	(1,271)	**(574)**	(2,108)
Loss before taxation		**(3,722)**	(12,680)	**(9,338)**	(10,600)
Taxation	6	**–**	–	**–**	–
Loss attributable to shareholders		**(3,722)**	(12,680)	**(9,338)**	(10,600)
Loss per share	8	**HK$(0.04)**	HK$(0.15)	**HK$(0.11)**	HK$(0.13)

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2003 AND 31 MARCH 2003

	Notes	30 September 2003 (Unaudited) HK$'000	31 March 2003 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	9	3,380	4,123
Intangible assets	10	327	479
Goodwill	10	63,549	67,251
		67,256	71,853
Current assets			
Inventories		694	859
Trade receivables	11	4,270	5,363
Other receivables, deposits and prepayments		956	782
Pledged bank deposit		1,041	1,036
Bank balances and cash		1,427	1,765
		8,388	9,805
Current liabilities			
Trade payables	12	6,710	9,807
Other payables and accrued charges		6,562	6,710
Loans from directors	13	13,044	13,044
Loans from related companies	14	11,382	4,082
Other loans		3,374	3,374
Preference dividend payable		673	673
Bank overdraft		–	731
		41,745	38,421
Net current liabilities		(33,357)	(28,616)
Total assets less current liabilities		33,899	43,237
Non-current liabilities			
Loan notes		80,000	80,000
		(46,101)	(36,763)
Capital and reserves			
Share capital	15	831	831
Share premium and reserves		(46,932)	(37,594)
		(46,101)	(36,763)

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	Six months ended 30 September	
	2003	2002
	HK$'000	HK$'000
Net cash outflow from operating activities	**(6,734)**	(4,988)
Net cash outflow from investing activities	**(173)**	(1,425)
Net cash inflow from financing activities	**7,300**	8,000
Increase in cash and cash equivalents	**393**	1,587
Cash and cash equivalents at 31 March	**1,034**	793
Cash and cash equivalents at 30 September	**1,427**	2,380

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Accumulated loss HK$'000	Total HK$'000
At 1 April 2002	83,144	74,623	53,022	(224,890)	(14,101)
Credit arising from capital reduction transferred to share premium and reserve account	(82,313)	82,313	–	–	–
Share premium applied towards the partial elimination of accumulated loss	–	(156,936)	–	156,936	–
Loss for the six months ended 30 September 2002	–	–	–	(10,600)	(10,600)
At 30 September 2002	831	–	53,022	(78,554)	(24,701)
At 1 April 2003	831	–	53,022	(90,616)	(36,763)
Loss for the six months ended 30 September 2003	–	–	–	(9,338)	(9,338)
At 30 September 2003	831	–	53,022	(99,954)	(46,101)

Notes:

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim accounts have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"). These interim accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31 March 2003, except that the Group has changed certain of its accounting policies following its adoption of the new and revised SSAPs which became effective on 1 January 2003. The adoption of these new and revised SSAPs has no material effect on the Group's results.

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

2. Segment information

The Group's unaudited turnover and contribution to results, analysed by principal activities, are as follows:

Income statement for six months ended 30 September 2003

	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Engineering services HK$'000	Recruitment services HK$'000	IT services HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER								
External sales	171	4,700	4,220	303	194	23	–	9,611
Inter-segment sales	21	30	–	–	17	–	(68)	–
Total	192	4,730	4,220	303	211	23	(68)	9,611
RESULTS								
Segment results	48	1,240	970	196	(1)	22	–	2,475
Other operating income								13
Unallocated expenses								(11,252)
Loss from operations								(8,764)
Finance costs								(574)
Loss before taxation								(9,338)
Taxation								–
Net loss for the period								(9,338)

Income statement for six months ended 30 September 2002

	Continuing operations					Discontinuing operation		
	Application solutions HK$'000	Network solutions HK$'000	Project services HK$'000	Engineering services HK$'000	IT services HK$'000	Content licensing HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER								
External sales	8,712	6,251	7,219	387	106	374	–	23,049
Inter-segment sales	2,136	–	–	–	–	–	(2,136)	–
Total	10,848	6,251	7,219	387	106	374	(2,136)	23,049
RESULTS								
Segment results	8,413	1,892	1,411	275	101	374	–	12,466
Other operating income								956
Unallocated expenses								(21,914)
Loss from operations								(8,492)
Finance costs								(2,108)
Profit on discontinuing operation								–
Loss before taxation								(10,600)
Taxation								–
Net loss for the period								(10,600)

Segment revenue and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue and results are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Unallocated items mainly consist of corporate expenses, other incomes and expenses.

The Group's unaudited turnover and contribution to results, analysed by geographical area are as follows:

Income statement for six months ended 30 September 2003

	Turnover by geographical market		Segment results	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong				
– Continuing operations	**7,733**	19,643	**2,017**	11,358
– Discontinuing operations	**–**	374	**–**	374
Elsewhere in the PRC	**1,878**	3,032	**458**	734
Total	**9,611**	23,049	**2,475**	12,466
Other operating income			**13**	956
Unallocated expenses			**(11,252)**	(21,914)
Loss from operations			**(8,764)**	(8,492)
Finance costs			**(574)**	(2,108)
Loss before taxation			**(9,338)**	(10,600)
Taxation			**–**	–
Net loss for the period			**(9,338)**	(10,600)

3. Loss from operations

Loss from operations has been arrived at after charging:

	Three months ended 30 September		Six months ended 30 September	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amortisation of goodwill	**1,851**	1,863	**3,702**	3,097
Amortisation of intangible assets	**76**	38	**152**	76
Depreciation of property, plant and equipment	**383**	503	**904**	1,066
Profit on disposal of fixed assets	**2**	21	**2**	23
Provision for bad and doubtful debts	**1**	1,631	**7**	2,046
Provision for compensation loss on early termination of a leasing agreement	**–**	1,005	**–**	1,005
Rental expenses under operating leases on:				
– Premises	**360**	1,856	**841**	2,537
– Equipment	**84**	291	**168**	582

4. Discontinuing operation

In September 2003, the directors determined to discontinue the Group's content licensing operation. The result of content licensing for the period was as follows:

	Six months ended 30 September 2003 HK$'000	2002 HK$'000
Turnover	–	374
Operating costs	–	–
Profit before taxation	–	374
Profit on discontinuing operation	–	–
Taxation	–	–
Profit after taxation	–	374

During the period, there was no significant cash inflow or outflow arising from the content licensing operation.

The carrying amounts of the assets and liabilities of the content licensing operation are as follows:

	30 September 2003 (Unaudited) HK$'000	31 March 2003 (Audited) HK$'000
Total assets	–	–
Total liabilities	362	362

5. Staff costs

	Three months ended 30 September		Six months ended 30 September	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Wages and salaries	**1,458**	4,278	**3,789**	8,108
Provision for annual leave	**(48)**	254	**(85)**	254
Total	**1,410**	4,532	**3,704**	8,362

6. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the period (2002: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operated, based on the existing legislation, interpretations and practices in respect thereof.

There was no material unprovided deferred taxation for the period (2002: Nil).

7. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2003 (2002: Nil).

8. Loss per share

The calculation of the basic loss per share for the three months and six months ended 30 September 2003 is based on the respective unaudited net loss attributable to shareholders of HK$3.7 million and HK$9.3 million (three months and six months ended 30 September 2002: HK$12.7 million and HK$10.6 million) and the weighted average number of 83,144,786 (three months and six months ended 30 September 2002: 83,144,786) ordinary shares in issue during the periods. Loss per share for the six months ended 30 September 2002 has been adjusted for the share consolidation on 6 May 2002.

No diluted loss per share has been presented for the three months and six months ended 30 September 2003 as there were no dilutive potential ordinary shares outstanding for the periods.

9. Property, plant and equipment

	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware HK$'000	Total HK$'000
At 1 April 2003	523	97	3,503	4,123
Additions	–	8	162	170
Disposal and written off	(8)	(1)	–	(9)
Depreciation charge	(250)	(25)	(629)	(904)
At 30 September 2003	265	79	3,036	3,380

10. Intangible assets

	Goodwill HK$'000	Computer software HK$'000	Total HK$'000
At 1 April 2003	67,251	479	67,730
Amortisation charge	(3,702)	(152)	(3,854)
At 30 September 2003	63,549	327	63,876

11. Trade receivables

The credit terms of the Group range from 7 to 60 days. The ageing analysis of trade receivables is as follows:

	30 September 2003 (Unaudited) HK$'000	31 March 2003 (Audited) HK$'000
Aged:		
0 – 30 days	**2,337**	3,429
31 – 60 days	**606**	803
61 – 90 days	**579**	490
Over 90 days	**748**	641
	4,270	5,363

12. Trade payables

The ageing analysis of trade payables is as follows:

	30 September 2003 (Unaudited) HK$'000	31 March 2003 (Audited) HK$'000
Aged:		
0 – 30 days	**4,676**	4,946
31 – 60 days	**152**	689
61 – 90 days	**169**	1,039
Over 90 days	**1,713**	3,133
	6,710	9,807

13. Loans from directors

The amounts are unsecured. Included in this amount is HK$10,000,000 (as at 31 March 2003: HK$10,000,000) which bears interest at 6% per annum and is repayable before 31 December 2003. In addition, included in this amount is HK$1,776,000 (as at 31 March 2003: HK$1,776,000) which bears interest at the prevailing market rates and is repayable before 31 December 2003. The remaining balance is non-interest bearing and is repayable on demand.

14. Loans from related companies

Included in this amount is HK$11,056,000 (as at 31 March 2003: HK$3,756,000) which bears interest at HIBOR plus 2% per annum and is repayable before 31 December 2003. The remaining balance is non-interest bearing and is repayable on demand.

15. Share capital

	Par value of shares	**Number of shares**	**Value**
	HK$		HK$
Authorised:			
Ordinary shares			
At 1 April 2003 and 30 September 2003	0.01 each	2,000,000,000	20,000,000
Preference shares			
At 1 April 2003 and 30 September 2003	0.05 each	2,000	100
Issued and fully paid:			
Ordinary shares			
At 1 April 2003 and 30 September 2003	0.01 each	83,144,786	831,448

16. Operating lease commitments

At 30 September 2003, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2003 (Unaudited) HK$'000	31 March 2003 (Audited) HK$'000
In respect of premises rental within one year	**295**	1,092
In respect of equipment rental within one year	**168**	–

17. Contingent liabilities

	30 September 2003 (Unaudited) HK$'000	31 March 2003 (Audited) HK$'000
Guarantees given to a related company in respect of loans utilised by subsidiaries	**9,800**	2,500

18. Related party transactions

During the period, the Group entered into the following material transactions with related parties:

	Six months ended 30 September	
	2003	2002
	HK$'000	HK$'000
Rentals and building management fee *(note a)*	**–**	80
Administrative costs *(note b)*	**–**	70
Finance costs to related companies *(note c)*	**145**	476
Finance costs to directors *(note d)*	**356**	890

Notes:

(a) Prior to the acquisition of Cyber On-Air Group Limited ("COA"), Cyber On-Air (Asia) Limited ("COAA"), in which a director of the Company has beneficial interests, provided office space for the Group during the prior period and the above sum was charged, being an appropriate allocation of costs incurred.

(b) Prior to the acquisition of COA, COAA provided administrative support to a subsidiary of the Company during the prior period and the above sum was charged, being an appropriate allocation of costs incurred.

(c) Companies, in which a director of the Company has beneficial interest, provided loans to the Group. In respect of loans from related companies, interest was charged at HIBOR plus 2% per annum. In respect of loan notes issued to related companies, interest was charged at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time.

Prior to the acquisition of COA, Cyber On-Air Limited, in which a director of the Company has beneficial interests, made advances to the Company during the prior period. Interest was charged at prime rate per annum.

(d) The amounts included finance costs paid in respect of loans from Mr. Lo Lin Shing, Simon, Mr. Choi Wing Kin and Mr. So Kam Wing, directors of the Company. For the loan from Mr. Lo Lin Shing, Simon, interest was charged at 6% per annum. For the loans from Mr. Choi Wing Kin and Mr. So Kam Wing, interest was charged at HIBOR plus 2% per annum. In respect of loan notes issued to Mr. Choi Wing Kin and Mr. So Kam Wing, interest was charged at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time.

INTERESTS OF THE DIRECTORS AND CHIEF EXECUTIVE

As at 30 September 2003, the interests of the directors and the chief executive of the Company in the loan notes (the "Notes") *(Note 1)* of the Company were as follows:

Name of directors	Personal interest HK$	Family interest HK$	Corporate interest HK$	Other interest HK$	Total HK$
Mr. Choi Wing Kin	26,592,000	–	–	–	26,592,000
Mr. So Kam Wing	1,824,000	–	–	–	1,824,000
Mr. Lo Lin Shing, Simon *(Note 2)*	–	–	7,296,000	–	7,296,000

Notes:

1. The Notes were issued by the Company to each of the ex-Vendors of COA pursuant to a resolution passed at the extraordinary general meeting of the Company held on 21 January 2002. The Notes are charged at the interest rate of the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time to its customers for advances in Hong Kong dollars and the payment obligations of the Company under the Notes issued to each of the ex-Vendors of COA are secured by a charge over the shares in COA sold by respective ex-Vendor of COA. Details of the above are set out in the circular of the Company dated 28 December 2001.

2. The Notes with the principal amount of HK$7,296,000 are owned by Wellington Equities Inc., a company incorporated in Republic of Panama with limited liability which is wholly owned by Mr. Lo Lin Shing, Simon.

Saved as disclosed above, as at 30 September 2003, none of the directors or chief executive of the Company had interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of 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); or which were recorded in the register required to be kept by the Company under section 352 of the SFO; or which were required to be notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings by the directors of the Company as referred to in Rule 5.40 of the GEM Listing Rules.

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to the directors of the Company, as at 30 September 2003, the persons or companies (not being a director or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Long position in the ordinary shares of the Company

Name of shareholder	Capacity	Number of shares	Approximate percentage of interest %
Qantex Limited ("Qantex")	Beneficial owner	22,868,656	27.5 *(Notes 1 & 2)*
Skynet Limited ("Skynet")	Interest of a controlled corporation	22,868,656	27.5 *(Note 1)*
Gold Cloud Agents Limited ("Gold Cloud")	Interest of a controlled corporation	22,868,656	27.5 *(Note 1)*
Companion Marble (BVI) Limited ("Companion")	Interest of a controlled corporation	22,868,656	27.5 *(Note 1)*
Skynet (International Group) Holdings Limited ("SIGHL")	Interest of a controlled corporation	22,868,656	27.5 *(Note 1)*

Notes:

1. These 22,868,656 shares of the Company are owned by Qantex. Qantex is a wholly-owned subsidiary of Skynet, of which Gold Cloud owns more than one-third of the issued share capital. Companion owns more than one-third of the issued share capital of Gold Cloud and is a wholly-owned subsidiary of SIGHL. Accordingly, Skynet, Gold Cloud, Companion and SIGHL are deemed to be interested in 22,868,656 shares held by Qantex under the SFO.

2. Pursuant to the conditional sale and purchase agreement dated 5 March 2003 (the "Agreement") entered into between Qantex, Cyber Network Technology Limited ("Cyber Network") and SIGHL, Qantex has agreed to sell and Cyber Network has agreed to purchase 22,868,656 shares of HK$0.01 each ("Sale Shares") in the capital of the Company on the terms and conditions as set out in the Agreement. Completion for the sale and purchase of the Sale Shares is subject to the fulfillment or waiver of certain conditions as stipulated in the Agreement. As at the date hereof, completion of the sale and purchase of the Sale Shares has not been taken place.

Save as disclosed above, as at 30 September 2003, the directors were not aware of any other person who had an interest or short position in shares, underlying shares or debentures which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the post-IPO share option scheme of the Company adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000, the Board may, at its discretion, grant options to full-time employees, including executive directors of the Company and its subsidiaries, to subscribe for shares of the Company. No options have been granted to the directors during the period or outstanding as at 30 September 2003.

At no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors, nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such right during the period.

COMPETING BUSINESS

None of the directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) has any interests in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the period under review.

BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in Rules 5.28 to 5.39 (where applicable) of the GEM Listing Rules during the period.

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee has two members, comprising two independent non-executive directors, Mr. Cheung Hon Kit and Mr. Ng Wai Hung. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee has reviewed the draft of these interim accounts and has provided advice and comments thereon.

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

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Choi Wing Kin
Executive Director

Hong Kong, 11 November 2003