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

Third Quarterly Report

2003/04

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

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

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

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

The board of directors (the "Board") of Cyber On-Air Group Company Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 31 December 2003, together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS AND NINE MONTHS ENDED 31 DECEMBER 2003

		Three months ended 31 December		Nine months ended 31 December	
		2003	2002	**2003**	2002
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**4,106**	9,688	**13,717**	32,737
– Continuing operation		**4,106**	9,688	**13,717**	32,363
– Discontinuing operation	*3*	**–**	–	**–**	374
Cost of sales		**(2,863)**	(6,988)	**(9,999)**	(17,571)
Gross profit		**1,243**	2,700	**3,718**	15,166
Interest income		**2**	5	**8**	22
Other revenue		**7**	127	**14**	1,065
Depreciation and amortisation		**(413)**	(618)	**(1,469)**	(1,760)
Advertising and promotion expenses		**(3)**	(89)	**(26)**	(233)
General and administrative expenses		**(2,054)**	(5,279)	**(8,525)**	(22,809)
Amortisation of goodwill		**(1,851)**	(1,851)	**(5,553)**	(4,948)
(Loss)/profit from operations		**(3,069)**	(5,005)	**(11,833)**	(13,497)
– Continuing operation		**(3,069)**	(5,005)	**(11,833)**	(13,871)
– Discontinuing operation	*3*	**–**	–	**–**	374
Finance costs		**(130)**	(236)	**(704)**	(2,344)
Loss before taxation		**(3,199)**	(5,241)	**(12,537)**	(15,841)
Taxation	*4*	**–**	–	**–**	–
Loss before minority interest		**(3,199)**	(5,241)	**(12,537)**	(15,841)
Minority interest		**–**	140	**–**	140
Loss attributable to shareholders		**(3,199)**	(5,101)	**(12,537)**	(15,701)
Loss per share	*6*	**HK$(0.04)**	HK$(0.06)	**HK$(0.15)**	HK$(0.19)

Notes:

1. Basis of preparation of the accounts

The unaudited condensed accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts have been prepared under the historical cost convention. The Group has adopted the new and revised Hong Kong Statements of Standard Accounting Practice ("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 periods' presentation.

2. Turnover

	Three months ended 31 December		Nine months ended 31 December	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The Group's turnover comprises:				
Sale of goods	**2,088**	5,655	**6,959**	20,618
Revenue from short-term contracts	**2,013**	3,327	**6,536**	10,932
Services income	**5**	36	**28**	517
– Continuing operation	**5**	36	**28**	143
– Discontinuing operation	**–**	–	**–**	374
Recruitment services income	**–**	670	**194**	670
	4,106	9,688	**13,717**	32,737

3. Discontinuing operation

In September 2003, the directors determined to discontinue the Group's content licensing operation. The results of this operation for the three months and nine months ended 31 December 2003 were as follows:

	Three months ended 31 December		Nine months ended 31 December	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**–**	–	**–**	374
Operating costs	**–**	–	**–**	–
Profit before taxation	**–**	–	**–**	374
Taxation	**–**	–	**–**	–
Profit after taxation	**–**	–	**–**	374

During the three months and nine months ended 31 December 2003, 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 were as follows:

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

4. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the three months and nine months ended 31 December 2003 and the corresponding periods in 2002.

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 three months and nine months ended 31 December 2003 and the corresponding periods in 2002.

5. Dividend

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2003 (2002: Nil).

6. Loss per share

The calculation of the basic loss per share for the three months and nine months ended 31 December 2003 is based on the respective unaudited net loss attributable to shareholders of HK$3.2 million and HK$12.5 million (three months and nine months ended 31 December 2002: HK$5.1 million and HK$15.7 million) and 83,144,786 (three months and nine months ended 31 December 2002: 83,144,786) ordinary shares in issue during the periods. Loss per share for the nine months ended 31 December 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 nine months ended 31 December 2003 as there were no dilutive potential ordinary shares outstanding for the periods.

7. Reserves

	Share premium	**Merger reserve**	**Accumulated loss**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2002	74,623	53,022	(224,890)	(97,245)
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 nine months ended 31 December 2002	–	–	(15,701)	(15,701)
At 31 December 2002	–	53,022	(83,655)	(30,633)
At 1 April 2003	–	53,022	(90,616)	(37,594)
Loss for the nine months ended 31 December 2003	–	–	(12,537)	(12,537)
At 31 December 2003	–	53,022	(103,153)	(50,131)

8. Contingent liabilities

As at 31 December 2003, the Company had provided corporate guarantees to Cyber Network Technology Limited, a related company, to secure loans amounting to HK$9.8 million (2002: HK$2.0 million) granted to its subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover for the three months ended 31 December 2003 was approximately HK$4.1 million, a decrease of 57.6% as compared with HK$9.7 million for the last corresponding period. Operating loss for the third quarter amounted to HK$3.1 million (2002: HK$5.0 million) and the loss per share was HK$0.04 (2002: HK$0.06).

After the outbreak of the Severe Acute Respiratory Syndrome, the overall markets in Hong Kong and the People's Republic of China (the "PRC") had been picking up. However, target customers of the Group in both telecommunication industry and small and medium enterprises had not fully recovered. They were still very cautious in controlling their expenses and taking any new projects.

The PRC market looked promising. The turnover and profit level in the PRC had increased compared with the last quarter. The PRC business had been a long term strategic priority for the Group's core business development.

During the three months ended 31 December 2003, the Group carried out effective measures on controlling cost by reducing staff cost by 52.6% and rental expenses by 71.9%, compared with the last corresponding period.

Business review

1. ***Wireless application products and solutions***

   Further to obtaining the distribution rights for wireless LAN security vendor Vernier Networks in the last quarter, the Group had been aggressively promoting the network by conducting a series of education programs to customers in the PRC. The Group also introduced the system to a Hong Kong Government department.

   In order to increase the awareness of the system benefits, the Group launched a promotional campaign for the wireless LAN security for Vernier Networks and advertised in mainland business media such as China Hi-Tech Directory 2004.

Leveraging on the expertise on wireless system integration, the Group had been actively liaising with various wireless solution vendors to widen its range of available solutions to maintain this business area as a significant business growth driver.

In the Hong Kong market, a contract was also signed with a servicing company for the development of a quality control management application system. The application can be further expanded in the future to include wireless data update.

2. Network solutions

While being appointed as China Telecom's authorized agent, the Group was working hard in extending its reach in the PRC telecommunication sector. Contracts had been renewed with Beijing Telecom, Wuhan Telecom, Guangdong Telecom, Hunan Telecom and Yunnan Telecom. There was also a new maintenance contract signed with Anhui Telecom. Technical seminars were conducted for Sichuan Telecom and Shanxi Telecom.

In view of the growing demand of Time Server products, the Group made special efforts in promoting the products in other areas of financial services industry such as banks. Shenzhen Development Bank was one of the examples that had given the Group good feedback.

Regarding the implementation of Symmetricom system, a telecommunication network synchronization system for upgrading network quality, a contract of primary reference source was concluded in the third quarter with a public utility company in Hong Kong whereas in the PRC, the Group won the synchronized clock projects from Anhui Telecom and Beijing Subway. The Group also finalized prolonged projects such as Shanghai RAMADA hotel project.

In developing the sales of RAD products, the Group provided a new product from RAD for helping customers such as mobile operators in saving cost on leased circuit. Promotional campaigns were conducted in the third quarter that already solicited interest from potential users.

In the Hong Kong market, the Group won contract for the trial of wireless LAN access in a few residential estates.

3. ***Project services***

   In Hong Kong, the Group had concluded projects for commercial building and shopping complex for the third quarter. Leveraging on the emergence of 3G development, the Group was in the progress of approaching successful 3G vendors for co-operation.

4. ***Recruitment services***

   This business segment was put on hold. The Group was taking a cautious step in evaluating and restructuring it to prepare for the market's economic recovery.

5. ***E-business, IT and multimedia services***

   The on-line news provider operation was suspended while the repair and maintenance services for customers continue.

Future outlook

Looking ahead, the Group has confidence in the recovery of the economic and business environment in Hong Kong and the PRC. It is ready to meet challenges and continues to move in a positive direction.

The business trend favorable to the Group is going wireless in the coming future. The Group believes, due to the price decrease for notebook computers in the PRC, there will be fast growth in wireless LAN deployment, especially in the education and finance segments. Hence, the Group will put more emphasis on the wireless applications and offer total wireless solution including wireless intrusion detection, access management and user security management.

The Group will continue to look for measures to enhance service quality whilst maintaining cost efficiency.

INTERESTS OF THE DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 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 Cyber On-Air Group Limited ("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.

Save as disclosed above, as at 31 December 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 were 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 Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules").

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to the directors of the Company, as at 31 December 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 positions in the ordinary shares of the Company

Name of shareholders	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 43% of the issued share capital. Companion owns 99% 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 set out in the Agreement. Certain conditions of the Agreement have not been satisfied on or before the long stop date of 31 December 2003. Hence, the Agreement has been lapsed and of no further effect.

Save as disclosed above, as at 31 December 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 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 nine months ended 31 December 2003 or outstanding as at 31 December 2003.

Save as disclosed above, at no time during the nine months ended 31 December 2003 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

During the nine months ended 31 December 2003, 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.

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 this quarterly report and has provided advice and comments thereon.

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

During the nine months ended 31 December 2003, 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

10 February 2004