



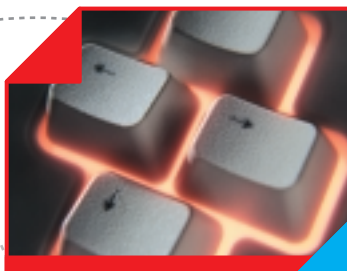
CYBER ON-AIR

創博數碼科技

CYBER ON-AIR GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Internet



Broadband



Wireless



Multimedia

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

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Cyber On-Air Group Company 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, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover for the six months ended 30 September 2004 was approximately HK\$5.7 million, representing a decrease of approximately 40.5%, as compared with approximately HK\$9.6 million for the previous corresponding period under review. The decrease in turnover was the result of keen competition for bidding projects.

The Group's gross profit was dropped approximately 19.9% to approximately HK\$2.0 million for the six months ended 30 September 2004 from approximately HK\$2.5 million in the last corresponding period.

The operating loss was approximately HK\$6.0 million for the six months ended 30 September 2004, which represented a decrease of approximately 31.9% when compared with approximately HK\$8.8 million in the previous corresponding period. This was due to the significant decrease in amortisation of goodwill and the effective cost control by management.

With a view to expanding the Group's long-term growth, the Group will execute some new plans in order to achieve better results; such as concentrating on projects with higher margin rather than engaging in lower margin projects. The other policy of the Group is to implement effective cost control policy so as to reinforce the Group's various projects and solution development.

The effective cost control policy was also implemented through the decrease in staff cost due to salary reductions with effect from June 2003. In addition, rental expenses were reduced as a result of office relocation in Hong Kong to premises with lower monthly rental in November 2003. During the six months ended 30 September 2004, the staff cost and rental expenses were reduced by approximately 33.1% and 56.4% respectively, compared with last corresponding period.

Business review

1. *Wireless application and network solutions*

Wireless application solutions are applications that are incorporated with wireless system including mobile networks or wireless local area networks ("WLAN") whereas network solutions include solutions for computer networks, data communication networks, WLAN or synchronization networks.

During the six months ended 30 September 2004, revenue derived from the network solutions was decreased to approximately HK\$3.5 million from approximately HK\$4.7 million in the last corresponding period. The decrease was due to strong competition for projects.

Apart from the continuous sales of WLAN security system to customers, we are also discussing the co-operation opportunity with potential WLAN system vendors to further strengthen our solution range.

With the improvement of the economic atmosphere, more enquires are received from customers to provide different network solutions. During the six months ended 30 September 2004, we have concluded another contract with one of the system integrators to provide a network solution for data communication between Hong Kong and nearby countries to one of the fixed network carriers. In addition, we have been awarded a tender from one of the public transportation companies to provide the extension of WLAN and security management system to their existing system.

2. *Project and engineering services*

Though the economic condition has improved, the competition on project services is still very keen.

The turnover from project services decreased to approximately HK\$1.6 million from approximately HK\$4.2 million in the last corresponding period while the engineering services increased to approximately HK\$0.6 million when compared with approximately HK\$0.3 million for the corresponding period in 2003.

During the six months ended 30 September 2004, the Group completed certain projects for New Jade Garden, Yau Kom Tau Tsuen, Metropole Building and River Trade Terminal Building.

Though the turnover from project services dropped, we foresee the contracts to conclude will increase as existing 2G mobile operators are going to invest to improve the existing 2G system to compete with 3G mobile operators whilst the existing 3G operators will aggressively install the base stations to obtain the market share.

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

The on-line content provider operation is no longer a foundation business for the Group and the repair and maintenance services for the customers are still provided by the Group.

Looking ahead

“The Group will continue to strengthen its core businesses.”

At present, the Group is discussing with three different vendors on the co-operation by acting as the distributor or reseller. One of them is a PRC vendor that manufactures data communication and VoIP Gateway solutions which meet the upcoming demand of fixed network carriers. The other vendor is an Israeli company which provides TDMoIP solutions for the telecommunications sector. The third vendor is a Taiwanese manufacturer that provides low cost WLAN access control and hotspot solution. The solution is very suitable for enterprises, hotels, shopping malls and schools that demand a cost effective solution with a highly secured WLAN connection.

With a view to gaining competitive edge and increasing profit margins, the Group has therefore started to source products that are price competitive.

“The Group will continue to explore the market and identify any business opportunities may provide growth and development potential and strive for better return to the shareholders.”

On 14 October 2004, Mediamaster Limited, a wholly owned subsidiary of the Company, entered into an acquisition agreement pursuant to which Mediamaster Limited conditionally agreed to acquire approximately 51.0% of total voting rights in M8 Entertainment Inc. (“M8”) for a total cash consideration of US\$11,626,203 (equivalent to approximately HK\$90.6 million). M8, a company incorporated in Canada, is principally engaged in the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres. Details of the proposed acquisition are set out in the announcement of the Company dated 14 October 2004.

Although the acquisition of M8 is not yet completed, the Group has great expectations to achieve substantial profits after the acquisition of M8. The acquisition of M8 will enable the Group to take a further step into the media/entertainment industry through investing in an established independent picture production/distribution group in North America.

The Group will continue to explore the market and identify any business opportunities may provide growth and development potential and strive for better return to the shareholders.

Liquidity, financial resources and capital structure

As at 30 September 2004, the Group’s net current assets amounted to approximately HK\$118.4 million (as at 31 March 2004: net current liabilities of approximately HK\$37.7 million). Current assets amounted to approximately HK\$151.8 million (as at 31 March 2004: approximately HK\$7.3 million), of which approximately HK\$143.8 million (as at 31 March 2004: approximately HK\$1.6 million) was cash, bank deposits and pledged deposits.

The Group had current liabilities amounted to approximately HK\$33.4 million (as at 31 March 2004: approximately HK\$45.0 million), of which approximately HK\$1.0 million (as at 31 March 2004: approximately HK\$1.0 million) was bank overdraft, approximately HK\$5.9 million (as at 31 March 2004: approximately HK\$6.1 million) was trade payables, approximately HK\$6.2 million (as at 31 March 2004: approximately HK\$7.9 million) was other payables and accrued charges, and HK\$18.5 million (as at 31 March 2004: HK\$28.5 million) was other borrowings.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 9.8% as at 30 September 2004 (as at 31 March 2004: approximately 473.0%).

The Group financed its operations generally with internally generated cash flows and the present available credit facilities.

On 30 April 2004, the Company has issued 120,000,000 shares of HK\$1.00 each in the share capital of the Company pursuant to a conditional subscription agreement entered into by the Company with Mediastar International Limited, a wholly owned subsidiary of Chow Tai Fook Enterprises Limited on 8 March 2004 relating to the subscription by Mediastar International Limited of 120,000,000 shares of HK\$1.00 each in the Company.

On 30 April 2004, the Company has also issued 4,000,000 shares of HK\$1.00 each in the share capital of the Company pursuant to the conditional settlement agreements entered into by the Company with Messrs. Wong Kwok Kin, Choi Wing Kin, So Kam Wing, Cyber Network Technology Limited and Wellington Equities Inc. (collectively the "Loan Notes Holders") on 8 March 2004 for the full and final settlement of all amounts outstanding under the loan notes, including unpaid accrued interest, and the discharge and release of the share charges in respect of all the shares in Cyber On-Air Group Limited granted by the Company in favour of each of the Loan Notes Holders.

On 5 May 2004, the Company has issued 80,000,000 shares of HK\$1.00 each in the share capital of the Company pursuant to a conditional placing agreement entered into by the Company with Tai Fook Securities Company Limited on 8 March 2004 relating to the placing of up to 80,000,000 shares of HK\$1.00 each in the Company.

Charges on group assets

A bank deposit amounting to approximately HK\$1.0 million was placed in time deposit as security for general banking facilities granted to a subsidiary of the Company, and approximately HK\$1.0 million had been utilised as at 30 September 2004.

Material acquisitions and disposals and significant investments

On 20 July 2004, the Company has entered into an investment agreement to invest US\$5,000,000 (equivalent to approximately HK\$39,000,000) in motion picture titled "Lovewrecked". Details of the investment in the motion picture are set out in the circular of the Company dated 13 August 2004. Same as disclosed above, there was neither significant investments held by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies for the six months ended 30 September 2004.

Future plans for material investments or capital assets

On 14 October 2004, Mediamaster Limited, a wholly owned subsidiary of the Company, entered into an acquisition agreement pursuant to which Mediamaster Limited conditionally agreed to acquire approximately 51.0% of total voting rights in M8 Entertainment Inc. ("M8") for a total cash consideration of US\$11,626,203 (equivalent to approximately HK\$90.6 million). M8, a company incorporated in Canada, is principally engaged in the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres. Details of the proposed acquisition are set out in the announcement of the Company dated 14 October 2004.

The Group will continue to explore the market and identify any business opportunities may provide growth and development potential and strive for better return to the shareholders.

Exposure to fluctuations in exchange rates and any related hedges

The Group's assets and liabilities were denominated in Hong Kong dollars and Renminbi. The Group has no significant exposure to foreign exchange fluctuations.

Contingent liabilities

As at 30 September 2004, the Company has provided corporate guarantees to Cyber Network Technology Limited, a related company, to secure loans amounted to HK\$10.5 million (as at 31 March 2004: HK\$10.5 million) granted to subsidiaries.

Employees and remuneration policies

The total number of employees of the Group was 29 as at 30 September 2004 (as at 30 September 2003: 35). The staff costs for the six months ended 30 September 2004 was approximately HK\$2.5 million (for the six months ended 30 September 2003: approximately HK\$3.7 million). 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 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 six months ended 30 September 2004, together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 SEPTEMBER 2004

		Three months ended 30 September		Six months ended 30 September	
	Notes	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	1,870	5,059	5,721	9,611
Cost of sales		(1,043)	(3,574)	(3,739)	(7,136)
Gross profit		827	1,485	1,982	2,475
Interest income		23	3	32	6
Other revenue		–	4	–	7
Depreciation and amortisation		(503)	(459)	(816)	(1,056)
Advertising and promotion expenses		(7)	(1)	(24)	(23)
General and administrative expenses		(2,687)	(2,600)	(6,802)	(6,471)
Amortisation of goodwill		(172)	(1,851)	(344)	(3,702)
Loss from operations		(2,519)	(3,419)	(5,972)	(8,764)
Finance costs		(179)	(303)	(759)	(574)
Loss before taxation		(2,698)	(3,722)	(6,731)	(9,338)
Taxation	6	–	–	–	–
Loss attributable to shareholders		(2,698)	(3,722)	(6,731)	(9,338)
Loss per share – basic	8	HK\$(0.01)	HK\$(4.48)	HK\$(0.04)	HK\$(11.23)

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2004 AND 31 MARCH 2004

	Notes	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	9	2,947	2,280
Intangible assets	10	24	175
Goodwill	10	5,150	5,494
Interests in an associate		–	–
Other investment		39,000	–
		<u>47,121</u>	<u>7,949</u>
Current assets			
Inventories		2,236	1,081
Trade receivables	11	3,750	3,973
Other receivables, deposits and prepayments		1,128	233
Amounts due from related companies		876	406
Pledged bank deposit		1,000	1,042
Bank balances and cash		142,833	559
		<u>151,823</u>	<u>7,294</u>
Current liabilities			
Trade payables	12	5,936	6,110
Other payables and accrued charges		6,187	7,862
Amounts due to related companies		1,173	817
Loans from directors	13	3,044	13,044
Loans from related companies	14	12,082	12,082
Other loans	15	3,374	3,374
Preference dividend payable		673	673
Bank overdraft		952	996
		<u>33,421</u>	<u>44,958</u>
Net current assets/(liabilities)		<u>118,402</u>	<u>(37,664)</u>
Total assets less current liabilities		<u>165,523</u>	<u>(29,715)</u>
Non-current liability			
Loan notes		–	42,600
		<u>165,523</u>	<u>(72,315)</u>
Capital and reserves			
Share capital	16	204,831	831
Share premium and reserves		(39,308)	(73,146)
		<u>165,523</u>	<u>(72,315)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net cash used in operating activities	(4,048)	(6,734)
Net cash used in investing activities	(40,257)	(173)
Net cash generated from financing activities	186,623	7,300
Increase in cash and cash equivalents	142,318	393
Cash and cash equivalents at 1 April	(437)	1,034
Cash and cash equivalents at 30 September	<u>141,881</u>	<u>1,427</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	142,833	1,427
Bank overdraft	(952)	-
	<u>141,881</u>	<u>1,427</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Share capital (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Merger reserve (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 April 2003	831	–	53,022	(90,616)	(36,763)
Loss for the period	–	–	–	(9,338)	(9,338)
At 30 September 2003	<u>831</u>	<u>–</u>	<u>53,022</u>	<u>(99,954)</u>	<u>(46,101)</u>
At 1 April 2004	831	–	53,022	(126,168)	(72,315)
Issue of shares at premium by the Company as a result of the settlement of loan notes, including unpaid accrued interest	4,000	40,569	–	–	44,569
Issue of shares through subscription	120,000	–	–	–	120,000
Issue of shares through placing	80,000	–	–	–	80,000
Loss for the period	–	–	–	(6,731)	(6,731)
At 30 September 2004	<u>204,831</u>	<u>40,569</u>	<u>53,022</u>	<u>(132,899)</u>	<u>165,523</u>

Notes:

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules. They have also been prepared under the historical cost convention.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2004.

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

2. Segment information

Business segments

For management purposes, the Group is currently organised into five operating divisions, namely application solutions, network solutions, project services, engineering services and IT services. These divisions are the basis on which the Group reports its primary segment information.

The content licensing and recruitment services operations were discontinued from 30 September 2003 and 31 March 2004 respectively.

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Segment information about these businesses is presented below.

Income statement for the six months ended 30 September 2004

	Continuing operations					Discontinuing operations			Consolidated (Unaudited) HK\$'000
	Application solutions (Unaudited) HK\$'000	Network solutions (Unaudited) HK\$'000	Project services (Unaudited) HK\$'000	Engineering services (Unaudited) HK\$'000	IT services (Unaudited) HK\$'000	Content licensing (Unaudited) HK\$'000	Recruitment services (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	
TURNOVER									
External sales	-	3,472	1,635	612	2	-	-	-	5,721
Inter-segment sales	-	-	-	-	-	-	-	-	-
Total	-	3,472	1,635	612	2	-	-	-	5,721
Inter-segment sales are charged at prevailing market prices.									
RESULTS									
Segment results	-	1,063	623	294	2	-	-	-	1,982
Other operating income									32
Unallocated expenses									(7,986)
Loss from operations									(5,972)
Finance costs									(759)
Loss before taxation									(6,731)
Taxation									-
Net loss for the period									(6,731)

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Income statement for the six months ended 30 September 2003

	Continuing operations					Discontinuing operations			Consolidated (Unaudited) HK\$'000
	Application solutions (Unaudited) HK\$'000	Network solutions (Unaudited) HK\$'000	Project services (Unaudited) HK\$'000	Engineering services (Unaudited) HK\$'000	IT services (Unaudited) HK\$'000	Content licensing (Unaudited) HK\$'000	Recruitment services (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	
TURNOVER									
External sales	171	4,700	4,220	303	23	-	194	-	9,611
Inter-segment sales	21	30	-	-	-	-	17	(68)	-
Total	192	4,730	4,220	303	23	-	211	(68)	9,611
	Inter-segment sales are charged at prevailing market prices.								
RESULTS									
Segment results	48	1,240	970	196	22	-	(1)	-	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)

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Geographical segments

The Group's operations are located in Hong Kong and elsewhere in the People's Republic of China ("PRC").

An analysis of the Group's turnover and results for the period by geographical segments is as follows:

Income statement for the six months ended 30 September 2004

	Hong Kong (Unaudited) HK\$'000	PRC (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
TURNOVER			
Continuing operations	5,025	696	5,721
Discontinuing operations	-	-	-
Total	5,025	696	5,721
RESULTS			
Continuing operations	1,776	206	1,982
Discontinuing operations	-	-	-
Total	1,776	206	1,982
Other operating income			32
Unallocated expenses			(7,986)
Loss from operations			(5,972)
Finance costs			(759)
Loss before taxation			(6,731)
Taxation			-
Net loss for the period			(6,731)

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Income statement for the six months ended 30 September 2003

	Hong Kong (Unaudited) <i>HK\$'000</i>	PRC (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
TURNOVER			
Continuing operations	7,733	1,684	9,417
Discontinuing operations	–	194	194
	7,733	1,878	9,611
RESULTS			
Continuing operations	2,017	459	2,476
Discontinuing operations	–	(1)	(1)
	2,017	458	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)

3. Loss from operations

Loss from operations has been arrived at after charging (crediting):

	Three months ended 30 September		Six months ended 30 September	
	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>
Amortisation of goodwill	172	1,851	344	3,702
Amortisation of intangible assets	75	76	151	152
Depreciation of property, plant and equipment	428	383	665	904
Gain on disposal of fixed assets	–	(2)	(1)	(2)
Provision for bad and doubtful debts	–	1	–	7
Rental expenses under operating leases on:				
– Premises	223	360	311	841
– Equipment	38	84	78	168
	38	84	78	168

4. Discontinuing operations

The content licensing and recruitment services operations were discontinued from 30 September 2003 and 31 March 2004 respectively. The results of these operations for the six months ended 30 September 2004, together with the comparative figures for the corresponding period in 2003 were as follows:

	Content licensing Six months ended 30 September		Recruitment services Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover				
– External sales	–	–	–	194
– Inter-segment sales	–	–	–	17
	<hr/>	<hr/>	<hr/>	<hr/>
Operating costs	–	–	–	211
	<hr/>	<hr/>	<hr/>	<hr/>
Loss before taxation	–	–	–	(1)
Taxation	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Loss after taxation	–	–	–	(1)
	<hr/>	<hr/>	<hr/>	<hr/>

The carrying amounts of the assets and liabilities of the content licensing and recruitment services operations at the balance sheet date were as follows:

	Content licensing		Recruitment services	
	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Total assets	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	267	297	–	–
	<hr/>	<hr/>	<hr/>	<hr/>

During the period, there was no significant cash inflow or outflow arising from the content licensing and recruitment services operations.

5. Staff costs

	Three months ended 30 September		Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Wages and salaries (including directors' emoluments)	1,300	1,458	2,446	3,789
Provision for annual leave	15	(48)	34	(85)
Total	<u>1,315</u>	<u>1,410</u>	<u>2,480</u>	<u>3,704</u>

6. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the three months and six months ended 30 September 2004. (for the three months and six months ended 30 September 2003: 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.

No provision for deferred taxation has been recognised for the three months and six months ended 30 September 2004 and the corresponding periods in 2003 in respect of the tax losses due to the unpredictability of future profit streams.

7. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2004 (for the six months ended 30 September 2003: nil).

8. Loss per share

The calculation of the basic loss per share for the three months and six months ended 30 September 2004 is based on the respective unaudited net loss attributable to shareholders of HK\$2,698,000 and HK\$6,731,000 (three months and six months ended 30 September 2003: HK\$3,722,000 and HK\$9,338,000) and the weighted average number of 204,831,447 and 170,317,785 (three months and six months ended 30 September 2003: 831,447) ordinary shares in issue during the periods. Loss per share for six months ended 30 September 2004, and the three months and six months ended 30 September 2003 has been adjusted for the share consolidation of every 100 ordinary shares of HK\$0.01 each into one share of HK\$1.00 each, which became effective on 22 April 2004.

No diluted loss per share has been presented for the three months and six months ended 30 September 2004 and the corresponding periods in 2003 as the company has no dilutive potential shares.

9. Property, plant and equipment

	Leasehold improvement (Unaudited) <i>HK\$'000</i>	Furniture, fixtures and equipment (Unaudited) <i>HK\$'000</i>	Computer hardware (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 April 2004	5	45	2,230	2,280
Additions	874	157	301	1,332
Disposal and written off	–	–	–	–
Depreciation charge	(184)	(29)	(452)	(665)
	<u>695</u>	<u>173</u>	<u>2,079</u>	<u>2,947</u>
At 30 September 2004				

10. Intangible assets

	Goodwill (Unaudited) <i>HK\$'000</i>	Computer software (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 April 2004	5,494	175	5,669
Amortisation charge	(344)	(151)	(495)
	<u>5,150</u>	<u>24</u>	<u>5,174</u>
At 30 September 2004			

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 2004 (Unaudited) <i>HK\$'000</i>	31 March 2004 (Audited) <i>HK\$'000</i>
Aged:		
0 – 30 days	1,513	1,507
31 – 60 days	493	518
61 – 90 days	119	616
Over 90 days	1,625	1,332
	<u>3,750</u>	<u>3,973</u>

12. Trade payables

The ageing analysis of trade payables is as follows:

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Aged:		
0 – 30 days	3,119	3,568
31 – 60 days	713	798
61 – 90 days	548	91
Over 90 days	1,556	1,653
	5,936	6,110

13. Loans from directors

The amounts are unsecured and repayable on demand. Included in this amount is HK\$1,776,000 (as at 31 March 2004: HK\$1,776,000) which bears interest at the prevailing market rates. The remaining balance is non-interest bearing.

14. Loans from related companies

The amounts are unsecured. Included in this amount is HK\$11,056,000 (as at 31 March 2004: HK\$11,056,000) which bears interest at HIBOR plus 2% per annum, and of which HK\$9,800,000 is repayable on 30 June 2005 and HK\$1,256,000 is repayable on demand. In addition, included in this amount is HK\$700,000 (as at 31 March 2004: HK\$700,000) which bears interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and is repayable on 30 June 2005. The remaining balance is non-interest bearing and is repayable on demand.

15. Other loans

The amounts are unsecured and repayable on demand. Included in this amount is HK\$1,968,000 (as at 31 March 2004: HK\$1,968,000) which bears interest at the prevailing market rates. The remaining balance is non-interest bearing.

16. Share capital

	Par value of shares <i>HK\$</i>	Number of shares	Value (Unaudited) <i>HK\$'000</i>
Authorised:			
Ordinary shares			
At 1 April 2004	0.01 each	2,000,000,000	20,000
Share consolidation		(1,980,000,000)	—
	1.00 each	20,000,000	20,000
Increase during the period	1.00 each	480,000,000	480,000
At 30 September 2004	1.00 each	<u>500,000,000</u>	<u>500,000</u>
Preference shares			
At 1 April 2004	0.05 each	2,000	—
Cancelled during the period		(2,000)	—
At 30 September 2004		<u>—</u>	<u>—</u>
Issued and fully paid:			
Ordinary shares			
At 1 April 2004	0.01 each	83,144,786	831
Share consolidation		(82,313,339)	—
	1.00 each	831,447	831
Issue of shares	1.00 each	204,000,000	204,000
At 30 September 2004	1.00 each	<u>204,831,447</u>	<u>204,831</u>

Notes:

Pursuant to resolutions passed at an extraordinary general meeting held on 22 April 2004:

- (i) every 100 issued shares of HK\$0.01 each in the capital of the Company were consolidated into one new share of HK\$1.00 each (the "Share Consolidation");
- (ii) the 2,000 unissued non-voting preference shares of HK\$0.05 each in the authorised share capital of the Company were cancelled (the "Cancellation");
- (iii) after the Share Consolidation and Cancellation became effective, the authorised share capital of the Company was increased from HK\$20,000,000 to HK\$500,000,000 by the creation of 480,000,000 unissued new shares of HK\$1.00 each; and
- (iv) then 204,000,000 shares of HK\$1.00 each in the capital of the Company were issued and were fully paid or credited as fully paid.

17. Operating lease commitments

At 30 September 2004, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Within one year	549	96
In the second to fifth year inclusive	286	17
	835	113

18. Contingent liabilities

	The Company	
	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Guarantees given to a related company in respect of loans utilised by subsidiaries	10,500	10,500

19. Related party transactions

During the six months ended 30 September 2004, the Group entered into the following material transactions with related parties:

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Finance costs to related companies (note a)	325	145
Finance costs to directors (note b)	233	356
Rental and office administrative expenses (note c)	309	-
Cabling sales (note d)	(63)	-
Rental for leased premises to a related company (note e)	132	-

Notes:

- (a) Companies, in which a director of the Company has beneficial interests, provided loans to the Group. In respect of loans from related companies, interest was charged at HIBOR plus 2% per annum and the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited. In respect of loan notes issued to related companies, interest was charged at the prime rate per annum.
- (b) The amounts included finance costs paid in respect of loans from Mr. Choi Wing Kin and Mr. So Kam Wing, directors of the Company, interest was charged at HIBOR plus 2% per annum. For the loan from Mr. Lo Lin Shing, Simon, a director of the Company, interest was charged at 6% per annum. In respect of loan notes issued to Mr. Choi Wing Kin and Mr. So Kam Wing, interest was charged at the prime rate per annum.
- (c) A company, in which a director of the Company has beneficial interests, provided an office space for the Group and share of office administrative expenses and the above sum was charged, being an appropriate allocation of costs incurred.
- (d) Cabling sales represented sales to a company, in which a director of the Company has beneficial interests. The transactions were carried at cost plus a certain percentage of mark-up.
- (e) The rental of an office was charged at fixed monthly amounts in accordance with the terms of the tenancy agreement.

20. Post Balance Sheet Event

On 14 October 2004, Mediamaster Limited, a wholly owned subsidiary of the Company, entered into an acquisition agreement pursuant to which Mediamaster Limited conditionally agreed to acquire and Music Box Entertainment Limited conditionally agreed to sell or procure the sale of 1,315,333 Class A Multiple Voting Shares ("Class A M8 Shares") in M8 Entertainment Inc. ("M8"), 79,414,501 Class B Subordinate Voting Shares in M8 ("Class B M8 Shares") and 130,891,920 Series C Preferred Shares in M8 ("Class C M8 Shares"), which in aggregate carry approximately 51.0% of the total voting rights attached to the issued share capital of M8, from Music Box Entertainment Limited for a total cash consideration of US\$11,626,203 (equivalent to approximately HK\$90.6 million). M8 is principally engaged in the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2004, the interests and short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which were 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, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company or the Stock Exchange, were as follows:

Name of Directors	Number of ordinary shares of HK\$1.00 each in the share capital of the Company				Total	Approximate percentage of the issued share capital of the Company
	Personal interest	Family interest	Corporate interest	Other interest		
Choi Wing Kin	1,329,600	–	–	–	1,329,600	0.65%
So Kam Wing	91,200	–	–	–	91,200	0.04%
Lo Lin Shing, Simon	–	–	364,800	–	364,800	0.18%
			(Note)			

Note: These shares are held by Wellington Equities Inc., which is wholly-owned by Mr. Lo Lin Shing, Simon.

Save as disclosed above, none of the Directors or the chief executive has any interests or short positions in the shares, underlying shares and 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 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, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company or the Stock Exchange as at 30 September 2004.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors or chief executive of the Company, as at 30 September 2004, shareholders (other than the Directors 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 to the Company 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:

Name of Shareholders	Capacity	Number of ordinary shares of HK\$1.00 each in the share capital of the Company	Approximate percentage of the issued share capital of the Company
Mediastar International Limited ("Mediastar")	Beneficial owner	120,000,079	58.58%
Chow Tai Fook Enterprises Limited ("CTF")	Interest of a controlled corporation	120,000,079 (Note 1)	58.58%
Cheung Chung Kiu	Beneficial owner	19,000,000	9.28%
Young China Investments Ltd.	Beneficial owner	19,000,000	9.28%
Chow Shiu Leung	Interest of a controlled corporation	19,000,000 (Note 2)	9.28%

Notes:

- (1) Mediastar is wholly-owned by CTF. Accordingly, CTF is deemed to be interested in 120,000,079 shares of the Company held by Mediastar under the SFO.
- (2) Young China Investments Ltd. is wholly-owned by Mr. Chow Shiu Leung. Accordingly, Mr. Chow Shiu Leung is deemed to be interested in 19,000,000 shares of the Company by Young China Investments Ltd. under the SFO.

Save as disclosed above, as at 30 September 2004, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company 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.

SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

A pre-IPO share option scheme ("Pre-IPO Scheme") was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000. Under the Pre-IPO Scheme, the board of directors may, at its discretion, grant options to employees, directors and consultant of the Group to subscribe for shares in the Company.

No options can be granted under the Pre-IPO Scheme upon the listing of the Company on GEM. There were no share options outstanding under the Pre-IPO Scheme as at 30 September 2004.

(b) Post-IPO share option scheme

In addition, a post-IPO share option scheme (the "Post-IPO Scheme") was adopted pursuant to a resolution passed by the broad of directors of the Company on 17 July 2000. Under the Post-IPO Scheme, the board of directors may, at its discretion, grant options to full-time employees, including executive directors of the Company and its subsidiaries to subscribe for shares in the Company.

No options have been granted, exercised or cancelled during the six months ended 30 September 2004 and there were no share options outstanding under the Post-IPO Scheme as at 30 September 2004. The Post-IPO Scheme was terminated and replaced by a new share option scheme (the "New Scheme") pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004.

(c) New share option scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004, the New Scheme was adopted. The summary of the principal terms of the New Scheme is set out in Appendix II of the circular of the Company dated 27 July 2004.

No options have been granted, exercised or cancelled during the six months ended 30 September 2004 and there were no share options outstanding under the New Scheme as at 30 September 2004.

COMPETING BUSINESS

During the six months ended 30 September 2004, 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 5.28 to 5.30 of the GEM Listing Rules. The audit committee has three members, comprising two independent non-executive directors and a non-executive director, Mr. Cheung Hon Kit, Mr. Wong Chi Keung and Mr. Wu Wing Kin. 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 unaudited interim report for the six months ended 30 September 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied with broad practices and procedures as set out in rules 5.34 to 5.45 (where applicable) of the GEM Listing Rules during the six months ended 30 September 2004.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in the rules 5.48 to 5.67 of the GEM Listing Rules.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the six months ended 30 September 2004.

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

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By order of the Board

Lo Lin Shing, Simon

Chairman

Hong Kong, 12 November 2004

As at the date of this report, the Board comprises the following members:

Executive Directors:

Lo Lin Shing, Simon (*Chairman*)

Cheung Kar Shun

Choi Wing Kin

So Kam Wing

Non-executive Director:

Wu Wing Kin

Independent non-executive Directors:

Cheung Hon Kit

Kwee Chong Kok, Michael

Wong Chi Keung