



Report to Shareholders



Jawahar C. Chatpar

President and Chief Executive Officer

TO OUR SHAREHOLDERS:

Cyber Digital's progress during calendar year 2001 resulted from our ongoing commitment to enhancing the value of our company through two principal product lines - next-generation broadband Internet systems and advanced digital voice switching infrastructure systems. We believe that service providers can offer affordable yet modern broadband Internet and digital voice services by exclusively using our vast array of Internet and voice systems; therefore eliminating their need to buy any equipment from our competitors. Our strategy over the past year has transformed Cyber Digital into a premier Internet and voice systems developer and manufacturer with global marketing opportunities.

ACHIEVEMENT OF OUR STRATEGIC GOALS

Our primary strategic goal this year was to enter the Nigerian telecommunications market with our voice systems. Pursuant this goal, we have successfully established strong relationships with strategic local partners and representatives in Nigeria. We believe that through these relationships we have built a strong base from which our business will grow throughout the nation.

In addition, during the past year, in alliance with AT&T, we have successfully concluded and proven our lucrative Internet Service Provider (ISP) business model. Our strategy is for service providers to duplicate this business model using our proprietary systems in cities throughout the United States.

IMPORTANT PRODUCT MILESTONES

We have fully developed and marketed an array of Internet infrastructure systems to address the business demands of Internet connectivity and security. Our Cyber Business Internet Gateway (CBIG) connects office networks to the Internet with increased reliability and lowered network costs. Our Cyber Internet Access Network (CIAN) distribution router permits multiple business users to simultaneously access the Internet at a fixed committed bandwidth rate in multi-tenant buildings, enabling Internet Service Providers (ISP) to build high-speed local-loop networks and efficiently service their customers. Our Cyber Firewall (CFW) IPsec based firewall assures the privacy, integrity and authenticity of information sent over the Internet, creating virtual private networks between corporate branch offices. Our robust Cyber Web Server (CWEB) is proven-in for high performance web applications. We intend to enhance our systems by introducing new technologies and software when the market requires.

Our commitment to research and development has enabled us to create state-of-the-art fiber optic and wireless digital voice switching systems. Our voice switching systems enable service providers to offer subscribers a full range of local and long distance telephone services. Our Cyber Distributed Central Office (CDCO)

exchange provides local telephone services to subscribers in cities and towns; while our Cyber Tandem Exchange (CTSX) enables providers to offer long distance calling services. Our Cyber Rural Exchange (CRX) is designed to provide telephone service in small towns and villages. Our Cyber Switch Exchange (CSX) is designed for use as a private branch exchange (PBX) for offices, universities, hospitals and other large organizations. We believe that we are one of a very few, if not the only, company in the world with proprietary technology for wireless digital voice switching allowing telephone service providers to rapidly deploy services at lower costs.

EMERGING MARKET OPPORTUNITIES

We believe that a substantial market opportunity exists as a result of a number of factors in the United States. Currently, business spending for connecting remote workers, branch offices and corporate headquarters to each other and to customers, suppliers and partners – either through the Internet or VPN – is large and growing. The vast majority of Internet users access data networks through slow dial-up modems, an integrated services digital network (ISDN) line or a digital subscriber line (DSL) line. DSL service is severely limited by the length of wire from a Baby Bell's central office to a subscriber location; generally less than 12,000 feet, which represents less than 10% of the total market. Our technology is not bound by these constraints; therefore our products are ideal for this market.

The Internet has enabled businesses to share information with increased efficiency. Yet with the use of the Internet comes a host of new threats; therefore security of data transmission over the Internet is of paramount importance to businesses. Data is secured over the Internet utilizing a component referred to in the industry as "firewall." Our CFW firewalls provide businesses with the highest level of data security available in

the industry at a substantial saving over our competitors.

In the aftermath of the telecommunications meltdown in the U.S., it is clear Internet backbone providers have built an over capacity of optical networks between major cities, now they must build their own local-loop digital broadband networks to reach out to businesses and consumers. We believe our CIAN distribution routers are specifically designed for the purpose of building local-loop digital broadband networks by Internet Service Providers.



Unlike technologically advanced countries, where the existing wired telephone network consists of centralized digital switches, developing countries are seeking a cost-effective alternative approach, such as our distributed digital wireless switching systems. We believe that the trend in the telecommunications industry towards distributed switching from centralized switching is similar to the trend in the computer industry towards distributed networking personal computers from centralized mainframe computers. We believe that with our distributed wireless switching system, public telephone operating companies in developing countries can rapidly provide telephone services to their customers. We believe that our digital wireless voice switches are well suited for developing countries.

SPEARHEADING OUR FUTURE SUCCESS

We believe that our Internet systems are specifically designed for the next-generation of local-loop digital broadband networks requiring increased reliability, performance, scalability, interoperability and flexibility. Our strategy is to market our Internet systems to Internet service providers, utility companies and telecommunication service providers who are

willing to build the next-generation local-loop digital broadband networks in the aftermath of the telecommunications meltdown in the U.S. We believe that we have an early mover advantage in this emerging market.

Our voice and Internet switching systems can use fiber optic or digital wireless transmission, which enable developing countries to easily and rapidly deploy telecommunications services to consumers within months rather than years. We have developed a strong foothold in the Nigerian telecommunication market by forming strategic relationships with local partners in various regions of Nigeria. Our key partners include Sidney Telecommunications Ltd., Dunu Nigeria Ltd. and 2 Systems Technologies Ltd. Since we offer an affordable telecommunications as well as Internet capability, Nigerian leaders have selected us as the ideal supplier of voice and Internet systems.

LEVERAGING OUR PROPRIETARY TECHNOLOGY

Unlike our competitors' systems, our systems are neither labor nor capital intensive but are software intensive. This capability, in contrast to that of our competitors', makes our systems more affordable for both voice and Internet network operators worldwide. Our digital voice switching and Internet Protocol (IP) infrastructure systems are based on our proprietary operating system software, which provides high performance, reliability and functionality. We regard our software technology and certain components of our system hardware as proprietary. We believe the development of comparable systems would require hundreds of millions of dollars and take

several years to complete, therefore diminishing the threat of new competitors in our markets.

SOLIDLY POSITIONED FOR SUCCESS

We are entering 2002 with a clear identity and direction in the fields of broadband data and voice communications. We believe that our two product lines will enhance the value of our company. Our vast array of both broadband Internet systems and advanced digital voice switching systems should provide a diverse revenue stream as well as solid growth prospects in the future.

We have recently received significant funding support from our institutional investor, which will allow us to substantially grow our business over the next several years.

Our past year's progress would not have been possible without the dedication and contribution from our employees. We appreciate the support of our stockholders, partners and employees as we advance toward our goals.

A handwritten signature in dark ink, appearing to read 'J. Chatpar', with a horizontal line underneath.

Jawahar C. Chatpar
President and Chief Executive Officer