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hkcyber.com (Holdings) Limited

Cyber 日報 (控股) 有限公司*

(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT

For the three months ended 30 June 2001

** For identification purpose only*

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 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 of hkyber.com (Holdings) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to hkyber.com (Holdings) Limited. 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.

HIGHLIGHTS

- The Group has focused on internal restructuring during the quarter ended 30 June 2001.
- As a consequence of significant deployment of management resources from income generating activities to restructuring activities, the Group's turnover for the three months ended 30 June 2001 registered a significant decline.
- The Group recorded an unaudited loss attributable to shareholders of HK\$21,424,000 for the three months ended 30 June 2001. The significant amount of loss was attributable to a large scale internal restructuring, which aimed at creating a cost efficient structure with enduring benefit to the Group.

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to present the unaudited combined results of hkcyber.com (Holdings) Limited (the "Company") and its subsidiaries (the "Group") for the three months ended 30 June 2001.

This year the internet business is under tremendous pressure to contain cost because of the difficulty in generating sufficient income through online facilities. Despite the disappointing result the management still have faith that the internet is a powerful tool in the media industry, and its application and development will ultimately foster those successfully exploiting the online model a major player in the industry.

During the quarter the Group has undergone a series of internal restructuring in order to realign itself with the current market and more importantly to prepare for a new business strategy.

During the quarter, we have reformed CyberDaily, the internet newspaper operated by the Group. Content of which we consider unhealthy to the public have been gradually eliminated. Services which are cost-ineffective have been suspended. The reform is still in progress and the major transformation is yet to come. We believe the renewed version of CyberDaily will greatly increase its readership.

FINANCIAL REVIEW

The Group's unaudited combined turnover for the three months ended 30 June 2001 amounted to HK\$777,000. This is a significant reduction of turnover compared to all previous quarters. However, there should not be a serious concern for members of the

Group because this is a deliberate action of the management to temporarily set aside the negotiation and execution of new contracts so as to focus on the more urgent issue of internal restructuring, which the management believes will pave the way for healthy and persistent growth in the coming months.

Loss attributable to shareholders of HK\$21,424,000 for the current quarter was reported. The management is confident that the result for the next quarter will be significantly improved with the reduction of fixed overheads.

BUSINESS REVIEW

Content Development

During the quarter CyberDaily creates a new page of special video broadcast on hot news for review of those exciting moment of our times.

In March this year Macau Jockey Club awarded a contract to the Group for online broadcast of racing and training programme. The racing events are broadcast live. Besides, much useful information on race cards, odds, trackwork, statistics and tips are provided. The website also deliver short and vivid analysis of coming racing event which helps readers to place their bets.

Technical development

Since incorporation the Group has invested HK\$69 million on infrastructure. With such significant amount of investment we are now able to handle daily traffic and members' service with ease.. Our technical team is developing an off-line facilities which can be integrated with the existing online infrastrucure.

Brand building

Spending on brand building has been curtailed during the quarter to preserve our financial resources for other projects. Future brand building activities will focus on the provision of services to the community with the effect of enhancing the image and public awareness of the Group.

E-commerce and services development

CyberDaily Bookshop was launched during the quarter. The bookshop offer a great varieties of books of literature, fiction, finance, leisure, technology, education, humanity and

children. Introduction and comments are provided to help visitors to decide whether they like to buy a particular book. A convenient and informative buying basket and billing procedure were designed for easy shopping.

CyberDaily has become a gazetted newspaper early this year. Initially, the Group aims to target the market of announcements made by listed companies. An announcement made through the internet can be read instantaneously anywhere. The announcers and readers can download a soft copy for future reference.

Advertising Income

This quarter the Group provides broadcasting service for Macau Jockey Club in return for advertising income. The broadcasting service opens to additional revenue besides the traditional banner and button advertising.

Content licensing

During the quarter the strength of our news content was manifested by securing content licensing contracts with YesMobile (H.K.) Ltd and SmarTone Mobile Communications Ltd.

FUTURE PLANS AND DEVELOPMENT

The management considers pageviews of the present web format of Cyber Daily can be greatly enhanced with a well-designed print format. The Group is performing thorough experiment on the process of converting the web format into a print format, and working out a unique strategy of complementing a web format by the print format. We are approaching finalisation of the experimentation and we shall have the pleasure of making an announcement of the details when we are ready to launch the print version of Cyber Daily. The management is confident that the future print version of Cyber Daily will be able to capture a critical mass of the market both offline and online that leads to enormous opportunities for the Group.

FIRST QUARTERLY RESULTS

For the three months ended 30 June 2001

The board of directors (the “Board” and the “Directors”) of hkcyber.com (Holdings) Limited (the “Company”) is pleased to announce the unaudited combined results of the Company and its subsidiaries (the “Group”) for the three months ended 30 June 2001 together with the comparative figures for the corresponding period in year 2000 as follows:

		3 months ended	3 months ended
		30 June	30 June
		2001	2000
	<i>Notes</i>	HK\$000	HK\$000
Turnover	2	<u>777</u>	<u>2,231</u>
Interest income		208	299
Other revenue		57	23
Website development expenses		(13,881)	(12,057)
Depreciation and amortisation		(3,873)	(424)
Advertising and promotion expenses		(271)	(3,578)
General and administrative expenses		(4,434)	(1,897)
Donation		<u>0</u>	<u>(1,000)</u>
Loss from operations		<u>(21,417)</u>	<u>(16,403)</u>
Finance costs		<u>(7)</u>	<u>(6)</u>
Loss before taxation		<u>(21,424)</u>	<u>(16,409)</u>
Taxation	3	<u>0</u>	<u>0</u>
Loss attributable to shareholders		<u>(21,424)</u>	<u>(16,409)</u>
Loss per share	4	<u>(1.2885) Cents</u>	<u>1.3127 Cents</u>

Notes:

1. **Basis of presentation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 14 April 2000. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 31 July 2000.

Pursuant to a group reorganisation (the "Reorganisation") which took place on 17 July 2000 to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM, the Company became the ultimate holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 21 July 2000 (the "Prospectus"). The results of the Group comprise the results of all companies now comprising the Group as if the current group structure had been in existence throughout the periods, or since their dates of incorporation where this is a shorter period.

The unaudited combined results for the period have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out in notes below.

2. **Turnover**

Turnover represents income of advertising service, content licensing, information technology service and e-business during the period.

3. **Taxation**

No provision for Hong Kong profits tax has been made in the accounts as the Group did not generate any assessable profits during the period and the corresponding period in the year 2000.

No deferred tax asset has been recognised in respect of tax loss available to offset future profits as it is not certain that the tax loss will be utilised in the foreseeable future.

4. Loss per share

The calculation of the basic loss per share for the three months ended 30 June 2001 is based on the unaudited combined loss attributable to shareholders of HK\$21,424,000 (2000: HK\$16,409,000) and the weighted average number of 1,662,655,737 (2000: 1,250,000,000) ordinary shares outstanding. The ordinary shares outstanding as a result of the Group's Reorganisation prior to its initial public offering of its shares in July 2000, are included in the calculation of the weighted average number of shares as if those shares had been in issue since 1 April 2000.

Diluted loss per share for the three months ended 30 June 2001 is not shown as the effect of dilutive potential ordinary shares during the period is anti-dilutive. No diluted loss per share has been presented for the three months ended 30 June 2000 as the Company did not have any dilutive potential ordinary shares.

5. Comparative Figures

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2001 (2000: Nil).

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2001, the interests of the Directors and their respective associates in the Company and its associated corporations as recorded in the register required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing

the Listing of Securities on GEM (the “GEM Listing Rules”), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Personal Interest <i>(Shares)</i>	Family Interest <i>(Shares)</i>	Corporate Interest <i>(Shares)</i>	Other Interest <i>(Shares)</i>	Total <i>(Shares)</i>
Leung Wai Man, Sunny	Nil	Nil	358,131,468 <i>(Note 1)</i>	Nil	358,131,468
Wong Yuk Man	Nil	Nil	54,836,790 <i>(Note 2)</i>	Nil	54,836,790
Lai King Yan, Anthony	Nil	Nil	8,123,964 <i>(Note 3)</i>	Nil	8,123,964
Leung Ge On, Andy	Nil	Nil	Nil	Nil	Nil
Shiu, Stephen Junior	Nil	Nil	Nil	Nil	Nil
Choi Wing Kin	Nil	Nil	Nil	Nil	Nil
Lo Lin Shing, Simon	Nil	Nil	Nil	Nil	Nil
Wu Wing Kin	Nil	Nil	Nil	Nil	Nil
Li Ka Cheung, Eric	Nil	Nil	Nil	Nil	Nil
Cheung Yan Leung, Stephen	Nil	Nil	Nil	Nil	Nil
Ng Wai Hung	Nil	Nil	Nil	Nil	Nil
Cheung Hon Kit	Nil	Nil	Nil	Nil	Nil

Notes

1. Shares held by Spencer Logistics Limited and Greatgo Holdings Limited which are wholly owned by Leung Wai Man, Sunny.

2. Shares held by Super Nation Investment Limited which is wholly owned by Wong Yuk Man.
3. Shares held by E-com Network Limited which is wholly owned by Lai King Yan, Anthony.

Save as disclosed above, none of the Directors, chief executive or their respective associates had, as at 30 June 2001, any interests in the shares of the Company or its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the pre-IPO Share Option Scheme adopted by the Company on 17 July 2000 (the "Pre-IPO Share Option Scheme"), the principal terms of which are summarised in the paragraph headed "Pre-IPO Share Option Scheme" in appendix IV to the Prospectus, the Company has granted the then directors 68,896,662 options to subscribe for an aggregate of 68,896,662 Shares of the Company at an exercise price of HK\$0.05 per Share on 18 July 2000. These options are exercisable during the period from 1 February 2001 to 30 July 2003 in accordance with the schedule set out in the paragraph "Pre-IPO Share Option Scheme" below.

As at 30 June 2001, the underlying shares attributable to the respective directors equivalent to the outstanding Pre-IPO Share Options are as follows:

Name of Director	Number of underlying Shares
Wong Yuk Man	25,000,000
Leung Wai Man, Sunny	25,000,000
Lai King Yan, Anthony	12,500,000
Shiu, Stephen Junior	146,662

The above underlying shares have excluded the entitlement of the ex-director Ms Choy Hok Man, Constance, who exercised fully the Pre-IPO Share Options equivalent to 6,250,000 underlying shares on 1 February 2001. Save as disclosed above, during the three months ended 30 June 2001, none of the Directors or chief executive of the Company was granted options to subscribe for shares or debentures of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the register required to be kept under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the issued share capital of the Company.

Name of shareholders	No. of shares held
Greatgo Holdings Limited	262,486,876 (<i>Note 1</i>)
Mr. Leung Wai Man, Sunny	358,131,468 (<i>Note 2</i>)
Qantex Limited (“Qantex”)	457,373,126 (<i>Notes 3 & 6</i>)
Skynet Limited	457,373,126 (<i>Notes 3 & 6</i>)
Gold Cloud Agents Limited (“Gold Cloud”)	457,373,126 (<i>Notes 3 & 6</i>)
Companion Marble (BVI) Limited	457,373,126 (<i>Notes 3 & 6</i>)
Skynet (International Group) Holdings Limited (“SIGHL”)	457,373,126 (<i>Notes 3 & 6</i>)
Companion Building Material (Holdings) Limited (“CBMHL”)	538,717,126 (<i>Note 4 & 6</i>)
Companion Building Material (BVI) Limited	538,717,126 (<i>Note 4 & 6</i>)
Companion Building Material International Holdings Limited	538,717,126 (<i>Note 4 & 6</i>)
Hanny Magnetics (B.V.I.) Limited (“Hanny”)	300,140,000 (<i>Notes 5 & 6</i>)
Hanny Holdings Limited	300,140,000 (<i>Notes 5 & 6</i>)

Notes:

1. Greatgo Holdings Limited is wholly owned by Mr. Leung Wai Man, Sunny.
2. Mr Leung Wai Man, Sunny’s shares are held through Greatgo Holdings Limited and Spencer Logistics Limited, each of which is wholly owned by Mr Leung Wai Man, Sunny.
3. These 457,373,126 shares of the Company are owned by Qantex. Qantex is a wholly owned subsidiary of Skynet Limited of which Gold Cloud owns more than one third of the issued share capital. Companion Marble (BVI) Limited owns more than one third of the issued share capital of Gold Cloud and is a wholly owned subsidiary of Skynet (International Group) Holdings Limited (“SIGHL”).

4. Of these 538,717,126 shares of the Company, 457,373,126 shares are owned by Qantex and 81,344,000 shares are owned by Companion Building Material (Holdings) Limited (“CBMHL”). CBMHL owns more than one third of the issued share capital of SIGHL, which indirectly holds approximately 54 percent of the issued share capital of Qantex. Companion Building Material (BVI) Limited owns the entire share capital of CBMHL and is a wholly owned subsidiary of Companion Building Material International Holdings Limited.
5. Hanny Magnetics (B.V.I.) Limited (“Hanny”) is a wholly-owned subsidiary of Hanny Holdings Limited.
6. 267 and 733 Preference Shares of the Company (the “Preference Shares”), the principal terms of which are summarised in the paragraph headed “Group reorganisation” in appendix IV to the Prospectus, have been issued and allotted to Hanny and Qantex respectively. On 1 February 2001, Hanny and Qantex have converted all the Preference Shares into 100,125,000 and 274,875,000 ordinary shares of the Company (the “Conversion”) respectively. The respective interests of Hanny and Qantex in the Company have been consequently increased to approximately 18.47% and 34.61% of the enlarged issued share capital of the Company immediately following the Conversion.

Save as disclosed above, the Directors are not aware of any other person having an interest in shares representing 10% or more of the issued share capital of the Company.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

In addition to options granted to Directors of the Company as disclosed in the section headed “Directors’ Rights to Acquire Shares “ above, the Company has granted options under the Pre-IPO Share Option Scheme totaling 56,103,338 to 114 employees and a consultant of the Group to subscribe for an aggregate of 56,103,338 Shares of the Company at an exercise price of HK\$0.05 per Share on 18 July 2000.

All the above outstanding options may be exercised in accordance with the terms of the Pre-IPO Share Option Scheme at any time during the period from 1 February 2001 to 30 July 2003 in accordance with the following schedule:

Period	Percentage of options granted to an Individual which are exercisable
Date of grant to six months' period after the listing of the Company on GEM	Zero
Six to twelve months' period after the listing of the Company on GEM	Up to one-third
Six to eighteen months' period after the listing of the Company on GEM	Up to two-thirds
Thereafter	All options which have not been previously exercised

As at 30 June 2001, 31,405,737 ordinary shares had been issued as a result of exercise of the Pre-IPO Share Options granted to employees and a consultant. Due to resignation of certain employees, options comprising an aggregate of 16,829,990 underlying shares lapsed during the period from 18 July 2000 to 30 June 2001. The remaining exercisable balance of the Pre-IPO Share Options granted to employees as at 30 June 2001 was therefore equivalent to 7,867,611 underlying shares.

Post-IPO Share Option Scheme

On 17 July, 2000, the Company conditionally adopted the Post-IPO Share Option Scheme (the "Share Option Scheme"), the principal terms of which are summarised in the paragraph headed "Share Option Scheme" in appendix IV to the Prospectus.

For the three months ended 30 June 2001, no options were granted by the Company under the Share Option Scheme.

COMPETING INTERESTS

As at 30 June 2001, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

SPONSOR'S INTERESTS

Pursuant to the agreement dated 20 April 2000 entered into between the Company and Yuanta Securities (Hong Kong) Company Limited ("Yuanta Securities"), Yuanta Securities will receive a fee for acting as the Company's retained sponsor for the period from 20 April 2000 to 31 March 2003.

On 4 May 2001, Yuanta Securities notified the Stock Exchange and the Company that, due to the merger between the Yuanta Group and the Core Pacific group, the employment of the then existing staff of Yuanta Securities had been transferred to Core Pacific-Yamaichi Capital Limited ("CPYC"), and the then existing business of Yuanta Securities were being gradually transferred to CPYC. As Yuanta Securities no longer complies with the eligibility criteria as set out in Chapter 6 of the GEM Listing Rules, Yuanta Securities was terminated with immediate effect its role as continuing sponsor of the Company and CPYC was appointed as the replacement sponsor on 3 August 2001 for the balance of the period from 3 August 2001 to 31 March 2003.

As updated and notified by Yuanta Securities, as at 30 June 2001, neither Yuanta Securities nor its directors, employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules), had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in July 2000. The audit committee comprising two independent non-executive Directors, Mr. Li Ka Cheung, Eric and Mr. Cheung Yan Leung, Stephen. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. Mr. Li Ka Cheung, Eric and Mr. Cheung Yan Leung, Stephen tendered their resignation on 10 July 2001 and, with immediate effect the other two independent non-executive directors Mr. Ng Wai Hung and Mr. Cheung Hon Kit were appointed as members of the audit committee of the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 30 June 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board
Lai King Yan, Anthony
Executive Director

Hong Kong, 13 August 2001